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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

OTTAWA, ONTARIO, NOVEMBER 29, 1938

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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

OTTAWA, ONTARIO, NOVEMBER 29, 1938

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Parliament Buildings, Ottawa, Ontario, on Tuesday, November 29, 1938, at 10.30 a.m.

PRESENT:

DR. JOSEPH SIROIS ..... CHAIRMAN

JOHN W. DAFOE, ESQ.	Commissioners
DR. ROBERT ALEXANDER MacKAY	
PROFESSOR HENRY FORBES ANGUS	

Commission Counsel:

Louis S. St. Laurent, Esq., K.C.

Secretariat:

Alex. Skelton, Esq.	Secretary
Adjutor Savard, Esq.	Secretaire Francais
R.M. Fowler, Esq.	Legal Secretary
Wilfrid Eggleston, Esq.	Assistant to the Secretary

FOR THE MANITOBA GOVERNMENT:

Hon. John Bracken	Premier
Hon. Stuart Garson	Provincial Treasurer
Hon. W.J. Major	Attorney General
Dr. A.R. Upgren	University of Minnesota
Dr. Alvin H. Hansen	Harvard University
Dr. Jacob Viner	University of Chicago

Railway Committee Room,
House of Commons,
Ottawa, Ontario,
November 29, 1938

MORNING SESSION

The Commission met at 10.30 A.M.

SUBMISSION BY GOVERNMENT OF MANITOBA

THE CHAIRMAN: You may continue, Mr. Bracken.

HON. JOHN BRACKEN, Premier of Manitoba: Mr. Chairman, at the close of the sitting yesterday I had just concluded some remarks on the question of what was said to be "accounts rendered by the Province of Manitoba". I pointed out that we had rendered no account, but rather had stated certain disabilities that we believed to exist as the result of national policy. I shall now continue with my brief.

THE MONETARY POLICY

" When I said in Winnipeg that the farmers of Western Canada had been attempting to pay their debts and meet the costs of their daily operations with a 50 cent dollar every farmer knew what I meant. He knew, for example, that it had been taking 2 bushels or more of wheat to pay the obligations that could be paid with one before. In some quarters this statement was taken to mean that Manitoba was undertaking to propose some unsound monetary plicies. The question w e need to answer is what is sound monetary policy at a time of economic catastrophe such as that through which we were passing during and subsequent to 1931 when for a number of years the price of wheat and certain other agricultural commodities were less than one-half of what they had been previously. We felt the answer to that question was so important that we should have the counsel of the most competent authority we could obtain on this continent. It is for this reason that Dr. Hansen is here today.

Dr. Hansen will present Manitoba's further views with regard to monetary policy."

Mr. Chairman, I have outlined in two or three pages following, the substance of the remarks that Dr. Hansen will make. I can save the time of the commission by asking that these remarks be included in what I have to say, because Dr. Hanson will be dealing with all these points, and dealing with them exhaustively. My remarks are simply a summary of what he proposes to say. I make this request only for the purpose of saving time, but would ask that it be incorporated in the record.

THE CHAIRMAN: It will be incorporated in the record.

MR. BRACKEN: Thank you.

The following summary of Dr. Hansen's remarks is incorporated at the request of Mr. Bracken.

The views which Dr. Hansen will present may be summarized as follows:

" 1. While fully aware of the limitations of monetary policy, he will show you that failure to take active monetary measures of an appropriate character was in many countries, including Canada, directly responsible for the development of a cumulative process of deflation. He will show, moreover, that the policy of currency alignment might have been peculiarly effective in countries like Canada which are large exporters of primary products.

2. He will show that any country confronted with a drastic fall in its export prices and consequently with a pressure on its balance of payments can make three choices. (1) It can take action positive or negative which will permit the foreign exchange value of its currency to fall. (2) It can institute exchange control and other regimented controls of its foreign trade, or (3) It can maintain the exchange rates and thereby force

upon the domestic economy, and especially upon its export producers, deflation of income and prices. He will show that during the greater part of the depression Canada took the last numbered choice.

3. He will show that monetary policy can be used to equalize the burden of a depression upon various regions and economic classes. Through the adjustment of the foreign exchange rates the prices of primary products can be brought into a better balance with the whole internal price and debt situation. He will show that this was not done in Canada.

4. Dr. Hanson will show further that the exporters of primary products in Canada suffered most seriously during the depression and that this suffering was greatly intensified by the maintenance of the former parity of the dollar with sterling prior to September 1931 and even more aggravated by the appreciation of the dollar in relation to sterling between September 1931 and April 1933.

5. He will present the view that great relief would have come to the exporters of primary products, and indeed a better balance in the whole structure of the Canadian economy, had the dollar been allowed to depreciate against sterling early in the depression and had a moderate depreciation of 10 per cent against sterling been maintained after September 1931.

6. He will show on the grounds of world experience as well as on grounds of economic analysis that the depreciation of the Canadian dollar far from causing inflation and a loss of confidence, would instead, have enlarged the banking reserves, broadened the credit base, stimulated expansion, raised export prices and hence the national income and economic activity. Experience in numerous countries reveals an increased confidence

in the currency of a country following currency re-alignment. This is shown particularly in the great rise in government bond prices in countries like England, Australia and the United States.

7. Dr. Hansen will show too that there is no ground for the apprehension that the rise of import and domestic prices would completely offset any gains from currency realignment. Both experience and economic analysis justify the expectation that particularly in countries exporting primary products, import prices and especially domestic prices rise less than export prices. Moreover, a rise in the incomes of primary producers greatly relieves the burden of tax debt and other relatively fixed charges.

8. He will show that there is no justifiable ground for the belief that such a balanced monetary policy would have been unduly onerous upon governments or corporations owing debts abroad. In the first place, the burden would fall only on the fixed interest investments, which constitute only a part of the total foreign investments in Canada. In the second place, a very large fraction of the corporations with foreign debt obligations would have benefited directly from higher export prices while governments would have benefited from increasing revenues resulting from business expansion. The gold clauses would not have added to the burden since they were subsequently abrogated both in the United States and Canada.

He will show that this objection to currency realignment has been enormously exaggerated and that it completely overlooks the fact that continued deflation as actually pursued has the effect of enormously increasing the burden of debt of all primary producers. Indeed the increased burden of debt due to the process of deflation

brought widespread bankruptcy sufficiently serious so that the whole economic structure was brought to the verge of a breakdown.

9. Lastly, Dr. Hansen will show that there is no ground whatever for the belief, apparently so widely held, that Canada could not have undertaken a deliberate policy of currency realignment owing to the non-existence of a central bank. He will show that machinery was quite readily available in Canada as elsewhere to regulate the foreign exchange value of our currency.

In connection with the discussion on monetary policy let me add that we have no thought of presenting a bill for damages to the Dominion for monetary losses sustained by the western provinces in consequence of federal monetary policy. We present the monetary brief only as one of the many factors which account for the economic stress to which the western provinces have been subjected, and which therefore serves to explain in part why these provinces now stand in need of a readjustment of their fiscal relations to the Dominion."

TARIFF POLICY

When Premier Hepburn claims that it is in effect the argument of the Manitoba tariff brief that "it is cheaper to buy in a country of high protection than in a country of less protection", he grossly misinterprets the argument of that brief. We do not in fact concede that the degree of effective protection is less in Canada than in the United States, even though rates of duty in the tariff of the latter country may be predominantly higher than in the Canadian tariff. Many of the American duties are wholly nominal, because imports would be negligible if there were no duties, and few of the American duties are effective in raising and keeping American prices above the world level by anything like the full amount of the

duty. In Canada, on the other hand, whether because of higher costs or because of monopoly practices, the tariff is a more effective instrument in raising the prices of protected commodities, and the tariff rates have been reinforced, moreover, by arbitrary valuations for duty purposes which are always arbitrarily higher, never arbitrarily lower, than the actual values.

Premier Hepburn rejects the proposition in the Manitoba brief that "if any particular item is challenged, our attempted moderation elsewhere should support the validity of the total calculation."

It has proved to have been a tactical error on our part to take faith in our honesty for granted. In the revision of our estimates of the tariff burden which we will present therefore the items on which the Manitoba brief was either deliberately or by oversight too moderate in its estimates will be specifically enumerated, as well as those which have been found to be too high."

The details of that will be taken up very exhaustively by Dr. Viner when he deals with the tariff question.

The brief continues:

" Premier Hepburn takes us to task for not making allowances in our estimate of tariff burden for goods which are cheaper in Canada than in the United States. Unless he contends that it was the Canadian tariff which made them cheaper, his criticism is unwarranted. In fact, even when the Canadian price is lower than the American, as may perhaps be the case with respect to woollen cloth, there is still a tariff burden, not allowed for in our tariff brief, in so far as the Canadian price is higher than the price at which British woollens would be available in the absence of the tariff.

Premier Hepburn paints a roseate picture of the share of the Prairie Provinces in the industrial growth of Canada and cites a Dominion report to the effect that 'A noteworthy feature of the nineteen-twenties was the increasing industrialization of the West, the Western Provinces experiencing a proportionately greater expansion than the main manufacturing provinces of Ontario and Quebec.'

If one starts from practically zero, one can grow by startlingly high percentages, and still be near zero. The facts, as closely as they can be calculated from available data, as to industrial production of a sort which can benefit from tariff protection, for the Prairie Provinces and for the central Provinces are as follows:

Proportion of population

	Prairie Provinces	Central Canada
1921	18.43%	60.25%
1931	22.26%	60.77%

Proportion of salaried and wage employees in Manufacturing

	Prairie Provinces	Central Canada
1920	7.83%	80.8%
1934	7.15%	80.93%

Premier Hepburn cites as an offset to the tariff burden on the Prairie Provinces the benefit derived by these provinces from the sale to other provinces of their own products at tariff-protected prices. But such sales are very nearly negligible.

Before I go further perhaps I should explain the table I just read. The figures in this table give a proportion of population in the prairie provinces, and in central Canada and a proportion of salaried and wage employees in manufacturing. Moreover, the table shows the

population is about three to one, three in the central provinces and one in the western provinces, while the proportion of salaried and wage employees in the central provinces is about ten to one or about three and one third times the industrialization in relation to population.

THE CHAIRMAN: You say, "Available data". Where did you secure these data?

HON. MR. BRACKEN: This comes from one of my advisers, and I cannot tell you the source, Mr. Chairman. I will be able to answer that question as soon as Dr. Grant comes in. In addition to the summary I have given you these figures show as well that, while in central Canada in the last few years industrialization has not gone down -- the population remained about the same, industrialization remained about the same -- in western Canada the population increased by some 20 per cent and the number of persons employed in industrial plants was reduced by about eight per cent. Of course, the whole point in the argument is that while percentages increased more rapidly in certain areas in western Canada, we start at a very low point.

I shall now continue with the brief:

" What the Prairie Provinces sell to the other provinces is sold predominantly at export (world market) prices. Mr. Hepburn cites the Canadian duty of 30 cents a bushel on Soviet wheat as "prohibitory", with the implication that the Prairie Provinces gain something therefrom. But it would be equally prohibitory of import if it were 1/10 cents a bushel, instead of 30 cents. Unfortunately for the Prairie Provinces, most of the duties in the Canadian tariff which apply to commodities of a kind which the Prairie Provinces buy from outside their own area are fully or substantially effective.

After referring at length in appropriately mournful terms to the burdens which Ontario has to bear, Premier Hepburn rises above the level of the 'principle of compensation for disability.' In a seemingly lofty and generous spirit, he pleads for a less calculating approach. 'Instead of rendering accounts to each other "in terms of money", or any other terms, we would all be better employed, working together for a greater and safer Canada.' The generosity is spurious, however. The cat, having eaten the canary, is naturally not anxious to have a census taken of the bird population. The canary happening to be ours, we are as naturally anxious that the census be taken."

Mr. Chairman, with respect to the next two or three pages, I can take the time of this commission to go over them but it will be dealt with in detail and exhaustively later by Dr. Viner --

THE CHAIRMAN: We will take it as read and put it in the evidence.

The following was incorporated in the record at the request of Mr. Bracken:

" Dr. Viner in his presentation will deal further with the effect of the protective tariff on the Prairie Provinces. The substance of his presentation may be briefly summarized as follows:

(1) It is not the purpose of Manitoba's tariff argument to appraise the Dominion tariff policy, nor to present a bill to the Dominion Government for economic loss which has or may result therefrom from the people of the Prairie Provinces. It is intended rather to show how the tariff, as one factor among others beyond the control of the provincial governments, has adversely affected their finances. He will show that it has done so in at least three ways:

(a) By increasing the production costs of the prairie farmers and increasing the prices of the commodities which the Prairie Provinces population consumes, it has reduced their tax-paying capacity; (b) By reducing their real income, it has increased their need for governmental relief and social service activities involving large expenditures of public funds; (c) By bringing about an enhancement of the prices of protected commodities, it has directly increased the unit-cost of provincial and local government activities, and has thus contributed to the need for a readjustment of the fiscal relations of the provincial governments and the Dominion.

(2) In order to discuss intelligently the significance of the tariff as a factor affecting adversely the provincial finances, it is necessary to have some quantitative idea of the extent of the burden resulting from it for the people of the Prairie Provinces. An attempt to measure their burden in dollars and cents terms is therefore not only justified, but is necessary, even if any measure obtained is subject to a wide range of probable error.

(3) An explanation will be made of the particular method of measurement of the tariff burden followed by us (namely, of assuming that the burden is measured by the extent to which prices of commodities purchased are enhanced as a result of the tariff), and this method will be defended, not as flawless, but as superior to any alternative method which is available.

(4) A reply will be made to all the substantial criticisms which have been presented before this Commission of our procedure in applying this method of measurement in our original presentation. It will be shown that some of these criticisms are based on a misinterpretation of our procedure, or are logically

invalid, or are of little quantitative significance. It will be conceded, however, that others of the criticims are valid, and justify certain adjustments. It will be conceded, in particular, that we should have adjusted our estimate of tariff burden for price enhancement resulting from the Dominion sales tax or from customs duties actually collected, and not resulting therefore from the protective effect of the tariff; and it will be conceded also that several minor errors were inadvertantly made in the price-comparisons operating in our favour.

(5) It will be shown that, notwithstanding contrary claims, there are no important offsets to the tariff burden on the Prairie Provinces in the form of tariff benefits to Prairie Province industries, (because all but a minor fraction of these industries are either engaged in production for export at world prices and therefore cannot benefit from protection of the domestic market, or are necessarily local in character and therefore would not be subject to foreign competition even in the absence of a tariff).

(6) The objection to our argument which has been raised to the effect that the tariff imposes corresponding burdens on some other provinces, and on Ontario in particular, will not be conceded, but no attempt will be made to rebut it in detail, on the ground that it is largely irrelevant to our case, which is not so much that other provinces benefit from the burdens on the Prairie Provinces, but rather that the tariff burden presses with special severity on the Prairie Provinces because their industries are more markedly specialized in production for export.

(7) Finally, it will be shown that in our original estimates what were then believed to be generous reductions

were arbitrarily made as offsets to any possible errors in our favour in our estimates. These reductions were sufficient to counterbalance a substantial portion, though not all, of the corrections we now concede should be made in our original estimates. After all the adjustments called for in our original estimates have been made there results, as our final estimate of the tariff burden on the cost of things purchased by people in the Prairie Provinces, some $47,000,000 in a normal year. This impairment of the real income of the people of the Prairie Provinces is sufficient, we contend, to account for a substantial portion of the difficulties which their provincial and local governments find in financing their necessary activities."

HON. MR. BRACKEN: Continuing:

" In the course of our presentations to this Commission the Manitoba Government has tried to give a sound interpretation to Federal policy in terms of regional and national welfare. We have established the tariff as one of our great disabilities and we trust that we shall have provided the Commission with sufficient detailed information and reasoning to support our contention. Our position in this regard is made somewhat easier by the views which were expressed by representatives of other provinces outside of Ontario and Quebec.

There is, perhaps, one further thing which I should say in regard to the tariff question. Our present tariff and legislation governing the terms under which foreign products may enter Canada has been, in our judgment, too much the result of the hurly-burly of politics. Our tariff has been scrambled together over a long period of years, and we do not think it can be said that the tariff structure we have in Canada

represents the most rational approach to an issue which affects in one way or another the people in all parts of Canada and affects adversely the people in certain parts of Canada.

In this connection I wish to leave with this Commission one final thought. As you know, the imposition of customs duties by the Federal Government has far-reaching effects upon various parts of Canada, and in the long run upon the nation as a whole. Tariffs on commodities profoundly affect the income of people in all parts of Canada, (and particularly in the parts of Canada which must always bear the burden of relatively high transportation costs). The imposition of customs duties also affects the competitive position of primary industries within this country, and at the same time affects our trade relations with other countries, as for example, their willingness to purchase Canadian wheat. Tariff schedules in Canada may also be factors affecting the purchasing power of people in other countries, which may, in turn have a distinct bearing upon the welfare of our primary industries.

Thus, no matter in what way we regard tariffs it is obvious that many delicate issues are at stake. For that reason we feel that as a country we should give more serious consideration, not only to what we may do in the future in respect to the creation of tariffs, but also to what we have done in the past, and the basic economic implications of our present tariff structure. We firmly believe that the evidence which has been submitted to this Commission in connection with tariff matters clearly indicates the necessity of giving continuous technical consideration to the tariff structure in Canada in order to bring our tariffs into line with the

economic well-being of our primary industries and therefore into line with national welfare.

There is every reason to suppose that in the next few years before us in Western Canada, and before us as as a nation, there will have to be many readjustments. The fact that this Commission has been sitting in Canada during the past year is ample evidence of that fact. May I express the hope that in the readjustments which must be made if Canada is to continue as a strong united nation, the economic implications of such matters as tariffs be approached on much broader grounds than has been customary in the past. I am sure that if the problem of tariffs had been treated on a broader economic basis during the past twenty or thirty years many of our present difficulties, and many of our present frictions between various parts of Canada, would not have arisen.

We would like to see the Minister of Finance establish a tariff advisory council, representative of the Maritimes, the Central Provinces, the Prairie Provinces and British Columbia, to function as a permanent research body dealing continuously with the economic implications of the Canadian tariff and of any proposed changes in it studying the effect of the Canadian tariff as a whole and in its many component parts upon the basic economies of various parts of Canada."

MR. ST. LAURENT: May I interrupt at this point? You say here: "We would like to see the Minister of Finance establish a tariff advisory council, representative of the Maritimes, the Central Provinces, the Prairie Provinces, and British Columbia ---". Would you elaborate just what you mean by "representatives"? Would it be tariff representatives?

HON. MR. BRACKEN: No; I mean representing the economic viewpoint of the different economic areas of Canada.

MR. ST. LAURENT: Experts chosen by the Minister of Finance?

HON. MR. BRACKEN: Yes.

MR. ST. LAURENT: As representing the economic viewpoint of these various regions?

HON. MR. BRACKEN: Yes, technical experts. The point that we should, as far as possible, know beforehand the implications of the proposed changes, and I think the different sections of Canada should know what they mean and what the results are likely to be.

THE CHAIRMAN: There is a tariff board today.

HON. MR. BRACKEN: Yes.

THE CHAIRMAN: You are not satisfied with the way it works, Mr. Premier, or that it should work on different lines.

HON. MR. BRACKEN: Well, there are two or three weaknesses in the present set-up as compared with what we have in mind. I believe there are just three members today. Is not that a fact? We have at least five different economic zones in Canada. I do not want to refer personally to members of the board, but I doubt whether they are technical experts on questions of such complex character as the tariff.

COMMISSIONER ANGUS: Is the idea that the advisory council be set up instead of the tariff board or in addition to it.

HON. MR. BRACKEN: Perhaps in substitution of it or an enlargement of it. The whole purpose being simply to understand the full implications of every move and the full effect the tariff changes will have on the different economic zones in Canada. For instance, if it is decided

that it is in the interest of the Canadian nation that we should not have freer trade than we have today we in western Canada want to know that, and we will have to develop our plans accordingly. If we have to face a world market which is 200,000,000 bushels less in wheat today than it was ten years ago, and we know that there is no chance of that being changed we will know what we will have to do. We will know we will have to make some radical changes in the present policies of local provincial governments.

COMMISSIONER ANGUS: It will be the function of the advisory council not to apply a policy that has been laid down by parliament?

HON. MR. BRACKEN: No; but to study and know what the present tariff structure means for these different economies and consider any new complexes on the changes and the affect they may have on those different economies.

COMMISSIONER MACKAY: Do you think a tariff research body goes far enough, Mr. Bracken, or do you want a body which would investigate economic problems in general and advise on economic policies in general?

HON. MR. BRACKEN: Well, the powers could not be too broad, because the implications of the whole tariff structure and changes in it are so important that we should have the greatest amount of light we can get shed upon it. I would say in answer to your question that it should be asked to keep under consideration the whole economic situation of Canada and the welfare of the nation as a whole in considering what policies they would say were in the the national interest. I do not know whether that answers your question or not.

I continue with the brief:

"The studies of such a body would lay the foundation for a sounder administration of tariff matters in their country and probably the avoidance of tariff developments

which might adversely affect those parts of Canada whose basic economic interests differ very greatly from those of the Central Provinces."

May I enlarge upon that point a little further. I can concieve of a situation in Canada where a protective tariff system would be in the national interest of this whole country, if we had known that from the beginning and based our development upon that policy. The fact we in western Canada are in this position, from whatever cause, whether through our own over-enthusiasm or because of pressure of national interests in time of war, I shall not discuss at the moment. But between the western boundary of Ontario and the Rocky Mountains we are producing three times as much wheat as the whole of Canada needs, and we are wholly dependent upon outside markets for the placing of some two thirds of our product. That is the situation we are in. For the moment we are not considering how we got there or who is to blame, but that is where we are. Now, the question is, what in the national interest is to be done about it. We find that factors outside our own control altogether have, even in the last ten years, resulted in reducing the amount of wheat that import nations buy from 760,000,000 bushels a year to 540,000,000 bushels a year. That is to say in the last eight or ten years they have bought 220,000,000 bushels less than they bought before. In addition to that the world is producing as much wheat today as it has produced at any time in the past, and this year has produced the biggest wheat crop the world has ever known, 500,000,000 bushels more than last year, a quarter of a billion bushels more than the biggest wheat crop we ever had before which was, I believe, in 1928. So that on the one hand we have the demand going down and on the other the supply remaining the same, with western Canada producing three times as much as this nation uses. What is to be the national policy under

these conditions? If thirty or forty years before we started developing western Canada we had any information there was not going to be a market for our product that country should not have been developed as it is today; but it is developed today, and it is in the line of those conditions that the Canadian nation must decidd what its future policy shouldd be. What we say here is that we should have the most light we can get upon this situation and decide in the national interest what is wise to try to do in the future; whether that industry should have an attempt made to save it, or if not recognize that it cannot be saved and let us start and back up and abandon western lands and let our railway deficit become greater and perhaps a quarter of a million more farmers go on relief and try to find a place in the industrial life of Canada.

These are the questions we have to face; and all I am suggesting is that we bring the best possible information to bear upon the decision we are likely to make.

To continue with the brief:

" We do not believe that as a people we have made adequate effort to ascertain the full economic implications of our tariff structure. We feel sure that if in the past we had subjected tariff proposals to the basic test of their effect upon primary industries, and of their national benefit, it would not be necessary for us to dwell at such length upon our disabilities in the Prairie Provinces at the present time. The tariff issue is an important one as far as we are concerned, and I trust there remains no doubt with this Commission or with the people of Canada as to the importance of its implications in the future unity and well-being of the Canadian nation."

The next page summarizes what the provincial treasurer will have to say later. Perhaps if you will let it go into

the record I shall pass over it.

The following summary of Mr. Garson's statement is placed in the record at the request of Mr. Bracken.

The Hon. Mr. Garson's Statement.

A great deal of the huge and complicated mass of evidence which has been presented to this Commission, although relevant enough to the main points of the enquiry, dealt with collateral matters.

Manitoba's brief has received its share of criticism. In our judgement practically the whole of this criticism has passed by the essentials of our case. It was directed against the collateral, corroborative material which we brought forward in support of our main proposals. But the nature of much of that criticism was such that it tended to improperly identify that corroborative material with the main proposals themselves; and so tended to create the illusion that such criticism to the extent that it was effective, attached to and affected in greater or less degree the essentials of our case.

To dispel this illusion, the Honourable Mr. Garson will recapitulate the essentials of Manitoba's case in the light of the criticisms directed against the corroborative material which was brought forward to support them, and at the same time he will examine the essentials of the Manitoba plan of public finance in comparison with the plan suggested by the representatives of Ontario; and say a word or two as to the position of the Dominion Treasury under each of these plans.

MR. Garson will examine the position of the Ontario taxpayer, the Ontario workman and the Ontario investor under the Manitoba plan upon the one hand and under the Ontario plan upon the other. These matters, which go to the root of this enquiry, could not be discussed

until the Ontario Brief had been presented to this Commission.

In conclusion, Mr. Garson will re-emphasize, in the light of the evidence which has been presented, the necessity and the advantages of a refunding of provincial debts under Federal auspices."

HON. MR. BRACKEN: Before I sit down, Mr. Chairman, there is one thing more I want to say. When we appeared before your commission a year ago we told you about the economic situation in our province. Since that time the economic situation facing western Canada has become much worse than it was at that time, and I should like to take a few moments in my closing remarks to refer to it. I refer to it in my brief as follows:

" Western Situation Worse than a Year Ago

Nearly a year has passed since Manitoba first submitted its case to this Commission, and I would be remiss in my duty if I did not bring to your attention some of the more important events which have transpired in the past twelve months.

Serious as the economic situation was in Manitoba and in Western Canada a year ago it is with regret that I must tell you that the situation at the moment is very much more critical. The deterioration in the economic picture of Western Canada during the past year may be told in terms of our leading agricultural commodity -- wheat. From 1933 to 1937 we had a series of very small crops which incidentally corresponded with a period of price improvement. This situation is shown in the following table which shows indices of wheat prices and wheat production from 1932 to 1937:-

	Index of Price of No. 1 Nor. Wheat 1932 - 100	Index of Wheat Production 1932 - 100
1932	100	100
1933	125	62
1934	151	62
1935	156	62
1936	226	48
1937	242	38

The early part of the 1938 growing season was relatively favourable and a new feeling of hopefulness seemed to pervade the Canadian West. After five years of crop disasters over large areas in the Prairie Provinces it now appeared possible that the West would harvest an average yield per acre, and prospects indicated production of from 350 to 400 million bushels. The main factor in bringing about this improvement was the generous rains over the drought area of Saskatchewan and Alberta. Before the growing season was over, however, a few dry spots in the Prairie Provinces developed and rust substantially reduced yields in eastern and southern Saskatchewan where rust resistant varieties were not in general use. The final out-turn of the 1938 crop was somewhat less than expected earlier in the season and was estimated at 324 million bushels, an estimate which may ultimately prove to be too low. However, that was a distinct improvement over production in recent years and compared very favourably with 159 million bushels harvested in 1937. Production in 1938 exceeded that of 1937 by 165 million bushels and there was a much better distribution of production over the Prairie Provinces.

From a production standpoint we may say that the West has had a fair year, and substantially better than in any year since 1932.

While it is possible to speak optimistically in regard to production in the West this year the benefits

of the increase in production in 1938 have largely disappeared in view of what has happened in respect to price. The following table shows the price of various standard grades of western grains on November 20, 1937 and on November 19, 1938:

	Nov. 20, 1937	Nov. 19, 1938
No. 1 Northern Wheat	136½	59-3/8
No. 2. C.W. Oats	47¾	28¾
No. 3 C.W. Barley	58½	34-7/8
No. 1. C.W. Flax	174½	137
No. 1. C.W. Rye	75½	39¼

The above table shows the unfavourable situation which has developed in regard to the prices of grains and flax seed since Manitoba submitted its case to this Commission, the price of wheat falling from over 1.30 a bushel to under 60 cents a bushel. I can, perhaps, clearly indicate to you the effect of this drastic decline in price by the simple statement that if our 1938 crop which was more than twice as large as the 1937 crop had gone to market on the basis of price levels now existing on the Winnipeg market, that large crop would have been worth to the farmers of Western Canada approximately thirty million dollars less than the small crop of 1937, which by the way was one of the most disastrous years from a production standpoint in the history of Western Canada -- a year when on account of widespread drought the great wheat producing province of Saskatchewan was practically out of the picture as a producer of surplus wheat."

COMMISSIONER ANGUS: Has that any bearing on the statement on page 11, where you say that you could substantially live within your income if you were in a position where "having sold our products in competitive markets of the world, we could buy what we needed at the same competitive world prices.

Can you really do that on this previous situation, or is it so bad now that even though changed ---

HON. MR. BRACKEN: Would you mind stating that question again?

COMMISSIONER ANGUS: I am asking whether the picture that has just been drawn, the situation in 1938, in any way invalidates the statement on page 11 of the brief, which says, "we could live within our income if we were in a position where, having sold our products in competitive markets of the world, we could buy what we needed at the same competitive world prices?"

HON. MR. BRACKEN: I do not think so, for this reason -- I am quoting now from memory -- prior to ten years ago the importing nations of the world took 760,000,000 bushels of wheat from the exporting nations. In the last ten years the figures, as I remember them, are 540,000,000. Something has happened in the last ten years to make the importing nations take 220,000,000 bushels less wheat than they took before.

Now, what are these things? Those, and the nationalistic policies of the different nations in Europe which took our wheat -- and Canada is one among them. I do not want to get too far into that question at the moment -- have a bearing on the situation -- In these countries they are bonusing the production of their own wheat. I need not go into the reasons for it. It may be a lack of confidence, perhaps, as to whether we are going to have peace or not, or they are afraid if we have war they will be defeated because they won't have enough food to feed their people, and other reasons as well. But, they are bonusing production in their own country, and they put up a tariff to keep our wheat out. Production has been increased not only in France, Germany and Italy, but in Great Britain as well. I do not know what the figures are now. A year

A year ago they guarnateed the price of wheat to growers in England to be 1.32. Every bushel of wheat these importing countries grow means they buy less from outside; so that I think the answer to your question is the statement in the first part of our brief is correct.

COMMISSIONER ANGUS: I fully appreciate the point that you have just made, but what I wanted to do was to bring out the statement that the qbility to live within the income, which appears on page 11, depends on two things.

HON. MR. BRACKEN: Yes.

COMMISSIONER ANGUS: It depends upon the change in the Canadian tariff, in your view, which is in our control, and on a change in the policies in these other countries, which is not within our control.

HON. MR. BRACKEN: Yes.

COMMISSIONER ANGUS: Assume that the policy of the other countries continues.

HON. MR. BRACKEN: Yes.

COMMISSIONER ANGUS: What is the situation?

HON. MR. BRACKEN: Well, I might ask you that question, Mr. Angus. What is the situation? Let us look at the realities and reason back from there. At the present time the world is taking 540,000,000 bushels a year. How much have the exporting nations got right now? According to prospects in the next few months 900,000,000 bushels. How much will they have next spring? 1000, 000,000 bushels. The importing nations will take 540,000,000 bushels and there will be a carry-over of 460,000,000 to next spring, which is almost as much as the carry-over we had eight or ten years ago which, apparently, was responsible for the low prices in those years following 1931. The price of wheat averaged at Fort William 70 cents. For the seven years before that it was $1.40. With that pile of wheat overhanging the market for seven years we took 70 cents, and

that is the period which brought the difficulties to Western Canada. During that period the value of our crop was $1200,million less than in the ten years preceding.

Now, your question is what are we going to do if Germany, Italy, France and Great Britain continue their present policy. Let us look at it. Suppose the world has 800,000,000 bushels of wheat to sell a year and these nations take 540,000,000 bushels. Production is more than the demand. What will happen? The same thing as happened in 1931. Prices will go down. They went down then to the lowest point in 400 years. They might do it again, if we keep on. What is the soundest thing for the nations of the world to try to do? The sound thing is to try to get back international trading. We cannot dictate to Germany, France, Italy or even Great Britain; but we can sit down and reason with them and see if we have been doing the right thing in Canada, Australia, Argentine and the United States.

I believe we need a reversal of world policies with regard to trade, and I believe we should get to work at it. Let us recognize it is going to be slow in coming about. Then, what is left with our own country producing three times as much wheat as we need and not having a market in the world to take the surplus, with a surplus in the Argentine and Australia and the United States. What is left? If the world won't take it there is just one thing left, and that is either by planned arrangement to try to get production down in the producing countries, Canada, Australia, Argentine and the United States, or without any plan to continue fighting against one another for the little market there is and take chances on our Agricultural industry becoming bankrupt, which is what is sure to happen.

Let us look at it a little further. The price of wheat is guaranteed now at 80 cents a bushel. The price at

the market is below sixty cents; the price at Fort William is around forty cents. What can happen to western agriculture with forty cent wheat? What service can the provincial government and the municipalities carry on with revenues based on forty cent wheat in an industry from which we get our chief revenue.

Suppose we get forty-five million bushels of wheat in Manitoba at forty cents a bushel. That gives us $18 millions for our wheat crop. The province of Manitoba and the municipalities are paying one-third of that alone in interest on their debts. How long can that continue? How long can this province continue to give a minimum of social services to its people? Can we keep 290,000 farmers on 290,000 farms if we have to reduce our services by one-third? And if we cannot, what is going to happen to the railway deficit and to agriculture as an industry? And to the amount of land under cultivation and the number of people on relief?

COMMISSIONER ANGUS: Well, I gather that no adjustment of the Canadian tariff alone in itself, however far reaching it were, would or could be sufficient to make that area in the full sense self-supporting.

HON. MR. BRACKEN: Except to the extent that that policy and other policies secured from other nations concessions which would enable them to buy our grain.

The brief continues:

" In spite of the helpfulness of nature in 1938 in giving us better yields the Prairie Provinces faced an economic disaster as a result of price trends. It was the realization of this fact that prompted the Dominion Government to intervene and establish a fixed price of 80 cents per bushel for No. 1 Northern Wheat.

Incidentally I would like to clarify a point before this Commission - there is an impression abroad in Canada that the farmers of the west are receiving 80 cents a bushel for their wheat. The fact of the matter is that this 80 cents price is the price of No. 1 Northern wheat (the second highest possible among many grades) in store at Port Arthur and Fort William 400 miles from one edge of the Canadian wheat fields and 1200 miles from the other. Thus the western farmer having No. 1 Northern wheat for sale is receiving not 80 cents a bushel, but 80 cents a bushel less freight and handling charges which may be conservatively estimated at an average of 17 cents a bushel. In other words a farmer in the central prairie area receives of the 80 cent price approximately 63 cents a bushel for No. 1 Northern$\frac{3}{2}$ But only a relatively small percentage of the 1938 crop - less than one-third - is grading No. 1 Northern. For the three months, August, September and October, the grading of the western wheat crop was as follows:

No. 1 Hard	2%
No. 1 Northern	29%
No. 2 Northern	35%
No. 3 Northern	22%
No. 4 Northern	4%
Other grades	8%

The above table shows that to date only 29 per cent of the 1938 inspections have graded No. 1 Northern, and 69 per cent have graded below No. 1 Northern. Therefore, in a great many cases producers are receiving 60 cents a bushel or less on the basis of the price established by the Canadian Wheat Board and the Dominion Government.

In Manitoba nearly one half the wheat we produce is of the Durum type, ~~~ ---- this is a type of wheat the farmers grew because of its resistance to drought

and rust before the rust resisting wheats were developed in the laboratories -- "and the price established for No. 1 Amber Durum by the Canadian Wheat Board and Dominion Government was not 80 cents but 70 cents a bushel -- 10 cents lower than the price established for No. 1 Northern wheat. The following table shows the grades of Durum wheats inspected during the three months from August to October."

(Page 10,365 follows)

No. 1 Amber Durum	7%
No. 2 " "	63%
No. 3 " "	25%
No. 4 " "	1%
Other grades	4%

It will be noted that only 7 per cent of the Durum wheat delivered during those three months graded No. 1. The big bulk of the 1938 Durum crop graded No. 2 and the fixed price established for this grade was 66 cents a bushel, which would net the average farmer in Manitoba only 50 cents a bushel. Therefore,it cannot be said that the price guaranteed to the farmers of Western Canada this year is high, but it can be said very forcibly that the establishing of these fixed prices by the Dominion Government and its marketing agency has served to save the prairies from an economic disaster of unprecedented proportions.

"For the information of the Commission I would like to present you with a statement showing the more important prices established by the Canadian Wheat Board at Fort William and Port Arthur and the average price this means to the farmers after freight and handling charges are deducted:

	Wheat Board's Fixed Prices 1938-39 (Chief Grades)	Wheat Board's Price to the Farmer (x)
No. 1 Hard	81	64

THE CHAIRMAN: And we have only 2 per cent of that.

HON. MR. BRACKEN: Only 2 per cent. Lots of our wheat this year falls within the next three grades, No. 1, No. 2 and No. 3 Northern:

	Whest Board's Fixed Prices 1938-39 (Chief Grades)	Wheat Board's Price to the Farmer (x)
No. 1 Northern	80	63
2 Northern	77	60
3 Northern	74	57

Sometimes there are large quantities of wheat of another variety, a little inferior in milling quality, and the prices shown run several cents lower for each grade:

	Wheat Board's Fixed Prices 1938-39 (Chief Grades)	Wheat Board's Price to the Farmer (x)
No. 4 Northern	69	52
5 Wheat	61½	44½
6 Wheat	54½	37½
Feed Wheat	48	31
1 C.W. Garnet	72	55
2 C.W. Garnet	69	52
3 C.W. Garnet	64	47
4 Special	65	48
5 Special	58	41
6 Special	52	35

Then we come to the Durums, and nearly one-half of Manitoba's production is Durum:

	Wheat Board's Fixed Prices 1938-39 (Chief Grades)	Wheat Board's Price to the Farmer (x)
No. 1 Amber Durum	70	54
2 Amber Durum	66	50
3 Amber Durum	62	46
4 Amber Durum	58	42

(x) Less freight and handling costs as closely as they can be estimated.

Those are the prices the farmer gets -- not 80 cents a bushel. Continuing with the brief:

"I do not propose at this time to outline at length the forces both domestic and international, which have brought about such a severe contraction in grain prices since we last appeared before this Commission. I do wish to say, however, that the world wheat picture has radically changed in the past eight months. World wheat production in 1938 has set a new world record, being some 300 million bushels greater than the previous record crop of

1928 and 500 million bushels greater than the world crop of last year. Important factors in determining the decline in price this year have been the large crop harvested in the United States and a phenomenal crop in Europe."

Let me say in passing that the situation in which we find ourselves this year has only been avoided in past years because of droughts over large parts of the wheat growing areas of the world. If we had had normal crops or good crops in almost any one of those periods, then the same situation we have to-day would have come about then. But it has been postponed because of crop disasters in large sections of the wheat growing world. Continuing:

"This large increase in world production of wheat was accompanied by indications for only a very limited increase in the world demand for wheat, and as a result there will be large quantities of the 1938 crop carried over into 1939-40. The Food Research Institute and the United States Department of Agriculture estimate an increase of from 400 to 500 million bushels in world carryovers at the end of next July as compared with July 1937. Without going into any further details at this time in respect to the world wheat situation I merely wish to indicate that the outlook is not encouraging and we have in this situation a factor which cannot help but bear down heavily dpon future incomes in the Prairie provinces."

If I may revert to the question Dr. Angus asked a moment ago, as to what should be done if the importing nations of the world would not take any more of our wheat, let me say that we have anticipated that situation. Realizing the serious consequences of just such a situation we have arranged to call a conference at Winnipeg the middle of next month for the purpose of trying to bring together all

of the pertinent facts with respect to the wheat problem of Canada in its relation to the wheat problem of the world. That is the whole purpose of that conference, to get all the facts for us in western Canada who see this cloud on the horizon, all of the facts for the Canadian people who will have to determine what their policy in connection with the wheat problem is going to be, and all of the facts so far as possible in connection with the wheat problem in the exporting wheat countries of the world -- Canada, the Argentine, Australia and the United States.

We recognise that only by a better understanding among the exporting and importing nations can we get more wheat into the markets of the importing countries of the world. We realise that if the Canadian people do not understand this problem, with a loss now staring the Dominion Government in the face running anywhere from thirty to sixty million dollars, depending on the price they sell the crop at, they cannot determine what their policy is to be in the future.

For ourselves we want to know what the prospects are for getting a market, and failing that, what are the prospects for a continued guarantee of some figure to keep the Prairie Provinces from complete bankruptcy. We want to be assured whether or not there is to be any relief in either one of these two avenues; and if not, then we shall know what we have to do. We shall have to go back and start on a new era of economy, tightening our belts, and the three Prairie Provinces and the seven or eight hundred municipalities will have to decide whether, in the face of the prospect of forty cent wheat on the prairies, they can continue to meet debt and interest charges of $700,000,000 odd for the province and municipalities. That is the situation we have to face, and we are therefore trying to

get all the pertinent facts, and we trust that in the light of those facts the wisest possible policies will be determined upon by the Canadian nation and by the provinces and municipalities affected. Continuing with the brief:

> "I trust that this Commission will bear in mind the difficult circumstances confronting Manitoba and other Prairie Provinces resulting from the decline in the past year in wheat prices to a level slightly higher than the low points reached in the depression years of 1932 and 1933."

Pardon me if I again go back to the question asked by Dr. Angus. If we are not going to have markets, if the Canadian nation determines it is not wise to try to save agriculture in its present stage of development as we have it in western Canada, if we are forced back into the position of having to plan to reduce our acreage, letting the lower one-third of our producers go out of production, in order to save bankruptcy, who, I ask, is going to reduce? Are we in Canada going to reduce if others do not? We tried to get together a few years ago and plan for a reduction in wheat acreage, and one nation that entered into that arrangement backed out of it. Some others went into it with very little enthusiasm, and to-day there is the same attitude towards it.

The United States to-day is planning to reduce its acreage from eighty to less than sixty million bushels of wheat, and if they do so I wonder how long it will be before their farmers are going to say: Are we to pay the price of solving the world's wheat problem?

So you can see, Mr. Chairman, the complexity of the problem that faces us, and even if we did agree with all these exporting nations to reduce, whatever they agreed to reduce, whether it be one-third or one-quarter, how

are we going to go about it to get that done? I would sooner be a member of this Commission, Mr. Chairman, than a public man trying to solve that problem.

Continuing now with the Brief:

> "In making our submission to this Commission last December we pointed out the effect of wheat prices upon incomes in Manitoba during 1931, 1932 and 1933 when farm revenues fell from an average of $138,000,000 in 1926 to 1930 to about $50,000,000 per year."

I wonder if we are to face the prospect of that for another half dozen years.

Continuing with the Brief:

> "There is no reason to suppose that present price levels would have any different effects upon the economy of western Canada, in fact we are less able to-day to stand the effect of 60 cent wheat than we were in 1932 and 1933. The reserves of the great bulk of our farmers have been seriously exhausted as a result of low prices and/or bad crops since 1930; therefore, the West will be even more responsive to the changes in income resulting from the trend of grain prices.
>
> "In conclusion, Mr. Chairman, may I state that Manitoba has tried to be frank in the presentation it has made to this Commission. We have placed our position before you as fairly as we know how; we have tried to assist the Commission in its work in every possible way; we have done our best to help you in getting at the facts regarding the disabilities which we have stressed in our various representations. We hope the part we have taken before this Commission will be helpful to you, not only in assisting you in the heavy responsibilities you carry, but helpful also in arriving at a sound program of readjustment in the

"internal affairs of Canada. We have given you the benefit of the advice and opinions of those who carry governmental responsibilities in Manitoba -- we have given you the views and detailed analysis of those whose training and experience are considered valuable in connection with the problems we have been discussing. On your part you have likewise been giving consideration to the problems which those charged with governmental responsibilities have been facing in Canada for the past number of years. Likewise you as Commissioners have drawn upon the best brains of Canada to assist in analyzing the difficult problems which have been placed before you. I cannot too highly praise the work of your research staff. It is our hope that all this work, and all this effort will lead to a better understanding of the problems of governments in Canada, and will lead to a basis upon which the people of all provinces in Canada can play their part in building up a strong united nation.

"After presenting the Commission with all the significant data which it was practicable for us to present we must now finally return to the basic facts and the urgency of the present position of the western provinces. That, in the final analysis, is the problem -- that is the problem the solution of which we seek before this Commission. Whatever be the incidence of the federal tariff; whatever be the effect of federal monetary policy; whatever be the transfer of income as a result of federal taxation; whatever be the trend in governmental expenditure for social services, and other purposes, the fact remains that the present situation is impossible so far as western Canada is concerned.

"May we return once again to the basic observations upon the Province of Manitoba made by Mr. G.F. Towers, Governor of the Bank of Canada, in his report to the Dominion Government under date of February 11, 1937."

I cannot help going back, Mr. Chairman, to the question raised by Dr. Angus, and I must apologise for going back to it again.

Just one word about the Province of Manitoba. If the over-development of wheat growing in Canada, Australia, the Argentine and the United States is even partly responsible for the present problem, and you will remember that for ten years after the war, when that development was taking place, the price of wheat was nearly twice as high as it is to-day, and this problem of to-day has developed in the last ten years -- if the problem of to-day is in any degree due to the over-development of the acreage in wheat, I say you cannot blame the Province of Manitoba for that. Our acreage in wheat to-day is not different from what it was thirty years ago. During all that intervening time our acreage has varied between 2,500,000 and 3,250,000 acres. The acreage has varied up and down a little bit but has continued very much the same acreage during that whole period of time. So the Province of Manitoba is not to blame if that is in part the explanation of the present situation. And yet because the price of wheat is a world price, we must take that price; if it is only 40 cents to our farmer, that is what we must take. How much reduction are we to make in our acreage, if that is to be the way in which this problem is to be solved?

I was about to quote from the report of the Bank of Canada on the finances of the government of Manitoba. The report that was made by Mr. Towers, Governor of the Bank of Canada, is dated February 11, 1937, last year, and

reads in part as follows:

> "....That capital expenditures in connection with the highways and hospitals, and increased current expenditures for education, public health and highway maintenance (to mention certain main items only) will soon be essential cannot be doubted."

Let me say that we have not been doing as much along those lines as we should have been doing under normal conditions. I continue the quotation from the Report of the Bank of Canada:

> "....We believe that during most of the period now under review, and specifically during the last five years, the government of the Province of Manitoba has made strong and commendable efforts to keep its budget balanced, and avoid unnecessary increases in debt, by imposing taxation on a scale at least as high as that of any other province in Canada, and by restricting expenditures as far as it was possible to go without curtailing services to an extent which would not have been in the public interest."

You will note that the Report of the Bank of Canada says that "the government of the Province of Manitoba has made strong and commendable efforts to keep its budget balanced". We have kept our budget balanced except for relief, and we have done it by cutting our expenditures more than has been done by practically any other government in Canada, and by imposing taxation at a rate higher than that imposed by any other government in Canada. But neither of these things can be continued indefinitely.

I continue the quotation from the Bank of Canada's Report:

> "....The fact that Manitoba finds itself in the position described in this report indicates certain fundamental

"strains and weaknesses, and it seems to be the case that revenues are not adequate, or are not sufficiently elastic, to enable the province to bear the burdens which modern practices of government and the force of the depression have placed upon it. Manitoba does not stand alone in this respect. Other sections of the country are facing problems which may differ in degree from those of Manitoba but are not, in other respects, dissimilar."

I may say to you, Mr. Chairman, that the situation in Manitoba is not the worst in all the provinces of Canada. Continuing with our Brief:

"It must be obvious that the governmental problem in Manitoba (and in other western provinces) must be clearly faced; as far as Manitoba is concerned the issues are exceedingly clear-cut. The present situation in this province as in other Prairie Provinces cannot be permitted to continue unless we are prepared to invite a break-down in provincial and municipal finances with the widespread repercussions that will precipitate. The deterioration which has taken place in our agricultural situation in the past six months makes the position much more acute than it was a year ago. The other alternative is for a readjustment in Dominion-Provincial relations along some such lines as we have suggested to this Commission."

Some comment has been made recently about a guaranteed minimum price for wheat. We recognise that that is in no sense any responsibility of this Commission, and in none of our presentations to this Commission have we at any time suggested that you should do something about a guaranteed minimum price for wheat. That is not within your jurisdiction. But, Mr. Chairman, it is within your jurisdiction to consider the situation that will exist in that part of Canada if

markets are not obtained and if a guaranteed minimum price is not given. Under those circumstances the responsibility will rest upon you, when you come to make your recommendations to the Dominion Government, to have in mind the economic situation that will exist in that part of Canada.

And now for the concluding paragraph of our Brief:

> "Difficult and complicated as our problems are, the past eight years have served to clarify the issues which we face. It now remains for this Commission to exercise its judgment upon the matters which we have presented. I have no hesitation in saying that the recommendations of this Commission will have great weight not only with the Parliament of Canada when it comes to deal with your report, but great weight in determining the manner in which Manitoba's treasury problems -- provincial and municipal -- will be dealt with, and in determining which of the two major alternatives before us will have to be followed as a basis for future policy."

I thank you, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. Bracken.

HON. MR. BRACKEN: Dr. Hansen is ready to proceed.

THE CHAIRMAN: We shall be glad to hear him.

CANADIAN MONETARY POLICY

DR. ALVIN H. HANSEN (Professor of Political Economy, Harvard University): Mr. Chairman and Members of the Commission, I should like at the outset to make clear that we have no thought, and I have no thought, of passing any judgment or blame upon the act of any Canadian official who has been responsible for monetary policy or fiscal policy during the last ten years. I think if one is candid one must admit that we were all of us in more or less of a fog during that period with respect to what ought to be public policy, and I think that economists particularly ought to be

extremely humble and extremely charitable in passing judgment upon responsible officials in that very, very difficult period.

When we are considering Canadian monetary policy in the past decade, we are considering it, I take it, partly in order to learn what we can from our past experience in order to derive therefrom some guidance with respect to the future; and we are considering it also with respect to the impact of the actual course of events upon the western provinces. Let me in that connection call your attention if I may to the very last paragraph on the last page of my Brief, where I say:

> "Finally, I should like to make it clear that there is no thought of presenting on behalf of the western provinces a bill for damages to the Dominion for monetary losses in consequence of federal monetary policy. Monetary policy is presented only as one of many factors which account for the economic stress to which the Western Provinces have been subjected, and which therefore serves to explain in part why these provinces now stand in need of a readjustment of their fiscal relations to the Dominion."

Then with respect to the future, while we are here considering history and the events of the last decade, what we have to say here does have, I feel, a very important bearing upon current developments.

I need not remind you that during the last few weeks the British pound has been depreciating against the Canadian dollar, and it may well be that Canada may in the near future face a situation, in this respect at any rate, not unlike that which prevailed in the period from September 1931, to March 1933, when the British pound also depreciated against the Canadian dollar; and thus Canada may again have to make a choice with respect to monetary policy. The choice that is made is bound to have an impact

and influence upon the economic life of the western provinces.

And now I turn to my Brief:

"Submission on Canadian Monetary Policy"

by

Dr. Alvin H. Hansen, Professor of Political Economy, Harvard University, upon behalf of the Manitoba Government.

"The events of the last decade have had a profound influence upon monetary thinking and monetary policy. It is clear that much experience has been gained with respect to the efficacy of monetary controls in the regularization and stabilization of economic life. This experience at some points has resulted in an increased skepticism about what can be achieved through monetary devices. It is my own view, at any rate, that the main causes of the drastic disturbances leading to the general world collapse of 1929 were essentially non-monetary in character and that monetary remedies alone are quite incapable of restoring normal economic activity. On the other side it is equally clear that failure to take definite monetary action at the appropriate time has too often been costly in terms of national income and employment, and sometimes dangerous in terms of social stability. Appropriate monetary policy might have spared us much of the suffering of the Great Depression. Indeed very frequently the secondary effects of the depression, leading to a cumulative process of deflation, were largely of monetary origin.

"Monetary policy is perforce concerned with two desiderata, one having to do in particular with internal equilibrium and the other with external equilibrium. As a first approximation one may say that internal equilibrium has to do with a balance in the domestic or internal cost price structure, while

"external equilibrium has to do with a balance (in terms of the foreign exchange rates) between the domestic cost price structure and the cost price structures of foreign economies. Internal equilibrium has essentially to do with a balanced adjustment in the flow of income among the various productive factors. In particular it is concerned with the adjustment of costs to prices in such a manner that there shall not be undue profit fluctuations. External equilibrium requires that the foreign exchange value of a country's currency shall be reasonably stable without such stability being purchased at the expense of a deterioration in its international balance of payments.

"Monetary orthodoxy has been profoundly shaken by the experience of the entire world in the last decade. With respect to internal monetary policy it was until recently regarded as of primary importance to fix the legal obligations of debtors in terms of a monetary unit of constant weight in gold. This was the meaning of the gold standard so far as internal monetary policy was concerned. In some countries, notably in the United States and in Canada, an effort was made to safeguard the maintenance of the internal gold standard by attaching to private contracts so-called gold clauses requiring payment in terms of a fixed gold content. Moreover, in addition to these gold clauses further security was sought in the two or three way bonds issued in Canada -- bonds payable according to the option of the creditor in the currencies of two or more countries. With respect to international relations, it was the aim of orthodox monetary policy to maintain a fixed value of the currency in terms of foreign currencies or, in other words, a system of fixed exchange rates. Thus for the

"old gold standard internal stability meant a constant value of money in terms of gold, and external stability meant a constant value of money in terms of foreign gold currencies.

"Justice between debtors and creditors, and between countries, ran in terms of the gold standard, and there was built up in all countries a strong feeling of financial morality, so to speak, which required rigorous adherence to the accepted standards. In particular there developed a set of more or less universally accepted canons in support of the view that any wilful alteration of the foreign exchange value of the currency was an act of international immorality and that it was the duty of every country to defend its currency regardless of consequences to the utmost possible degree. On the other hand, international financial morality permitted the utmost freedom or license with respect to tariff policy, regardless of the fact that changes in tariff rates might seriously impair the economic prosperity of foreign countries, and indeed world equilibrium.

"The world has experienced a shift in public opinion, with respect to these fundamental monetary principles, in the last decade. This, I think, is evident to anyone. More and more it has become clear that justice as between the debtor and creditor in the internal economy is very frequently far from being satisfied and indeed is often directly violated by the maintenance under certain circumstances of a constant gold value of the currency. With respect to international relations it is equally clear that the mere formal maintenance of a constant foreign exchange value of a currency is quite inadequate under certain circumstances to maintain the workability of

"the international price structure. Indeed, it is clear that under certain circumstances the maintenance of a fixed gold value of a currency internally, or the maintenance of a fixed foreign exchange value of a currency externally may profoundly contribute to both internal and external disequilibrium. Thus we have seen how the gold standard may at times impose economic burdens so overwhelming as to lead eventually to a complete breakdown and thereby a collapse of the very monetary standard which it has been the aim of a formal, rigid monetary policy to maintain."

COMMISSIONER ANGUS: Dr. Hansen, do you think that even going back well before the war, anyone would have denied that hypothetically the gold standard might have those effects in certain instances?

DR. HANSEN: No, I think that was true also before the war, true in particular after 1870, when the gold standard became quite international.

COMMISSIONER ANGUS: I mean when you speak of economic orthodoxy. Was it not rather a judgment on the facts that in the actual situation of the day it was all right to keep it on this basis?

DR. HANSEN: Yes, it worked reasonably well from the period particularly of the late nineties up to the time of the World War. But that is a relatively short period, sir.

COMMISSIONER ANGUS: Yes.

DR. HANSEN: It did not work very well from the period when the international gold standard was introduced in the early seventies up to the late nineties owing to the drastic secular fall in prices, and some, of course, would also say that the secular rise in prices from the late nineties to 1914 also indicated that it was not working so well. I myself would not lay stress on that because I have the view

that a moderate rise in prices is a pretty healthy economic situation. Continuing:

"These developments have forced us to examine more deeply the fundamental canons and criteria of a truly sound monetary standard -- one which can facilitate the workability of the economic system and contribute to genuine economic justice both internally and externally.

"It has sometimes been charged that as we abandon our old moorings, our formal canons and criteria of financial integrity, we embark upon a course of utmost license, where no rules of equity and financial sobriety any longer prevail. But this is not the case. Monetary policy cannot escape the rigorous tests imposed by the requirements of social utility and economic workability. The monetary standard must contribute to the functioning of the economic society in such a manner as to produce a high degree of stability and full employment of the resources. It must promote economic justice to the various factors of production, so as to motivate each element of society to make its full contribution to the productive process.

"It is clear, I think, that world public opinion has moved far toward acceptance of the principle that economic justice and the workability of a system of free enterprise at anything approaching full employment cannot, under modern conditions, be achieved by any automatic device, such as the old gold standard aimed to be. It is more and more apparent that these ends can be achieved only by the exercise of judgment with respect to the particular situations which from time to time have to be dealt with in a rapidly changing world.

"But this exercise of judgment involves the consideration and recognition of a variety of more or less conflicting interests, both with respect to internal monetary policy and external policy. It seeks to achieve a general goal which looks beyond the interests of special groups and classes."

(Page 10390 follows.)



"It aims at the successful functioning of the whole economy. The new view recognizes fully that action dictated by the special monetary interests of groups or regions not only fails to give economic justice but may also render unworkable the economic system as a whole.

"Thus the new monetary morality, if one may so say, calls for a monetary policy which will aim to secure internal and external balance. Internally this calls for a policy of compromise between the various component parts of an economy. Externally it means a monetary policy which promotes not the undue advantage of one nation at the expense of other nations, but rather the attainment of international equilibrium.

"Thus a flexible monetary policy, if it is to be successful, calls for restraint. It requires a sense of social and international responsibility. It calls for compromise and agreement, both with respect to internal conflicting interests and with respect to relations with the outside world. The old rigid gold standard, in its internal as well as its external functioning, at times operated to produce violent dislocation in the internal cost-price structure and at the same time to produce quite untenable cost-price relationships on the international plane. While it fulfilled a certain formal canon of monetary integrity, it in fact operated not infrequently, and particularly in periods of stress, to produce gross injustices and serious economic disturbances.

"From this point of view one can arrive at a reasonable judgment with respect to appropriate monetary policy in various countries since 1929. A flexible

"monetary policy may be the only method by which a reasonable balance of economic advantage may be secured by the various groups and regions within a country, and by means of which serious international maladjustments may be avoided. Lack of monetary action has not infrequently in fact given special interests or regions an unwarranted advantage as against the whole community and at times in the international sphere has accentuated a tendency toward competitive deflation. Indeed we have learned in recent years that competitive deflation by countries operating under the gold standard may be an even greater danger than the competitive depreciation of paper currencies.

"Only against the background of these larger issues is it possible to survey the monetary course of a country like Canada. Before doing so, however, it may be helpful to consider the stream of world forces to which countries confronted with quite different problems were subjected. Each in the end was forced to make some adjustment to the overwhelming changes in the post-war world situation.

"Let us begin by considering very briefly the major factors which caused the world monetary collapse. Three developments mainly account for this breakdown. The first was the drastic change which occurred in the late twenties in the terms of trade between raw material countries and highly industrialized countries. The second was the sudden cessation of the vast volume of foreign lending which had continued throughout the major part of the decade. And third was the progressive derangement in the cost-price balance and particularly the widening gulf between income and debts

"which deepened progressively as the Great Depression wore on. I shall not consider the underlying causes of the depression itself. It was in part caused, or at least intensified, by the first two factors mentioned, namely the drastic shift in the terms of trade and in the volume of international capital movements.

"Most of the raw material countries were subjected in the late twenties, and especially from 1928 on, to severe pressure in their balance of payments. This was caused in part by the decline in the value of exports incident to a fall in the price of major export primary products and in part by the drying up of the inflow of foreign capital. Under the impact of the fall in export values and the cessation of borrowing abroad, the supply of foreign exchange was not adequate to meet the demand for foreign exchange. As depression and deflation deepened, the lag in the decline in the total value of imports behind the decline in the total value of exports exerted an additional pressure. The result was a serious loss of gold and foreign liquid assets. One by one the raw material countries abandoned the gold standard. Some went off early, determined to safeguard their gold and foreign exchange reserves. Others did so only after they had been almost completely denuded of these assets. These latter sought, often at great economic loss to themselves and in some cases indeed to the world, to defend the foreign exchange value of their currency to the bitter end.

"The Economic Intelligence Service of the League of Nations presents in the Monetary Review of 1937 a convenient table on page 112 of the successive departures from the former gold parity of the currencies of one

"primary producing country after another. Thus, starting with Uruguay, Argentina and Brazil in 1929, there followed in rapid succession Bolivia, Australia, New Zealand, Peru and Venezuela in 1930, and Mexico in early 1931.

"Next the scene shifted to certain older industrial countries. First the blow fell upon those countries, which by reason of the war and the Treaty of Versailles had become, despite their industrial maturity, debtor countries. By reason of this change their international accounts could be kept in balance only by a large inflow of foreign loans. When these ceased, a serious deterioration in their balance of payments set in, with a consequent strain on their currencies. No longer able to obtain long-term capital from the creditor countries, short-term lending for a time filled the gap. An alarming banking crisis developed and with it a heavy withdrawal of foreign funds and a flight of domestic capital.

"From the debtor countries of central Europe the crisis spread to England, the traditional centre and sustaining bulwark of the international monetary system. Already for six years past, England had been operating under the handicap of an overvalued pound - "

Particularly in relation to the franc and the American dollar.

"- and an intractable and inflexible cost structure. Thus the English economy was working under a difficulty which revealed itself in its position in the export market and above all in an unprecedented volume of unemployment. The depression, once on, made the English situation still more difficult. This is true because it led to a further loss of export markets owing to the

"rapidly diminishing buying power of the raw material producing countries. In addition, England suffered from the drastic decline in interest and dividend payments on her foreign investments due to the defaults and losses incident to the Great Depression. Thus a surplus on current account of 103 million pounds in 1929 was converted into a deficit of 104 million pounds in 1931. This situation, together with the unfavorable budgetary position and the unyielding cost structure, developed a rapid loss of confidence in the English situation leading to a heavy withdrawal from London of foreign short-term balances."

COMMISSIONER ANGUS: According to your argument, Dr. Hansen, do you think it would have been reasonable if Great Britain in 1929, let us say, before the crisis developed,had taken the attitude, "Well, we have imposed too heavy a handicap upon ourselves by bringing up the exchange value of the pound, and we are going to go back", and had done so without being under immediate pressure?

DR. HANSEN: They were under pressure continuously from 1925 after they returned to the old gold parity. I do think it would have been a reasonable thing, particularly prior to the return to the gold standard. Most English economists advocated a return to a gold standard at a lower gold content than before the war. Even after having taken that step, in view of the extraordinary difficulty England was labouring under, I think it would have been reasonable.

COMMISSIONER ANGUS: And you think that the people who suffered a certain loss in the depreciation in value of their balances carried in London would have had no legitimate cause of complaint if that step had been taken in 1929?

DR. HANSEN: In such situations account must be taken of all the various alternative losses with which you are

confronted. If England chooses to pursue one policy - for example, the policy which she actually did choose - certain losses follow, very important losses; if she chooses some other policy, some other losses ensue. You have therefore to balance the two, because only upon those terms can you make a judgment.

COMMISSIONER ANGUS: I suppose the question is this: What is that degree of strain under which it is reasonable that I may do something that will cause a loss of expectations to others?

DR. HANSEN: Yes.

COMMISSIONER ANGUS: And you believe that such a strain had developed from 1925 onwards ?

DR. HANSEN: I give consideration to that point later on, Dr. Angus. Perhaps you will defer the question until then.

COMMISSIONER ANGUS: It might be more convenient to take it then.

DR. HANSEN:

"France, owing to the under-valuation of the franc, continued to enjoy an easy monetary and balance of payments position during the first two years of the depression. But after the abandonment of the gold standard in England and the nearly universal depreciation of currencies in other countries, the franc at long last was subjected to increasing pressure. An intermittently-applied policy of deflation eventually resulted in a labor and social crisis. From this there was no escape except the eventual departure from gold in the autumn of 1936.

"That the deterioration in the balance of payments in these various countries and the consequent strain on their currencies was alleviated through the abandonment of the gold standard is clear from a consideration

"of their subsequent history. It is important to consider the precise nature and character of the relief obtained. The exploration of this problem will reveal the consequences for the economy as a whole, as well as for its component parts, of the process of currency re-alignment. The consequences are extremely complicated and ramify in many directions throughout the entire economic structure.

"It is by no means true, as sometimes asserted, that the consequences of depreciation of a country's currency can be subsumed under one simple formula; namely, that a decline in the foreign exchange value of the monetary unit affects favorably everyone who is receiving payments from abroad, while it affects unfavorably everyone who is compelled to make payments abroad. Since it is definitely the case in any one period that the payments to be received from abroad are precisely equal to the payments made abroad, it would follow from this overly-simplified statement that a change in the foreign exchange value of the monetary unit has no effect on the economy as a whole; that any gain made by one component group of the economy is offset by a corresponding loss sustained by another equally important element of society."

I shall develop this point later on. I might interject this remark here, however. It is not merely a matter of re-distribution, taking something from one and giving it to another. It is a fact that currency depreciation results in a re-distribution, and very frequently, as I shall seek to show, re-distribution in terms of a better balance. While certain elements may have an undue share of the total income - the restricted income - in the period when the country is under

great strain, and while that group may have a smaller share of the total income following the readjustment, it may well be that their absolute income is still higher. In other words, you have a larger "pie" to be divided among the various elements, a better distribution of the "pie" after the income has been enlarged. That point will be developed presently.

"But the matter by no means ends there. The all-important thing to note is that from theory, as well as from the actual monetary experience of the last decade, it is apparent that the re-alignment in the foreign exchange value of the monetary unit may have a very profound effect on the national income and upon the full employment of its productive resources. In recent analyses of business fluctuations great stress has been laid upon the point that the major determinant of fluctuations in the national income is the volume of investment or expenditure on capital goods. This analysis holds particularly for advanced industrial countries. For countries producing mainly primary products which are largely exported abroad we may, broadly speaking, substitute the value of exports for investment. For mature countries the value of investment or capital expenditures by private enterprise and by government is the major determinant. For countries producing primary products the main determinant is the value of exports."

We cannot measure the influence of the rise, let us say, in the value of exports or the rise in investment, in highly industrialized countries, merely by the absolute amount of such rise, because we have to take account of a cumulative process. That is to say, a rise in investment means in

turn a rise in comsumption. It means a rise in consumption for the reason that the workers employed in the investment industries which are now stimulated will have larger buying power in the consumers' market. The increase in investment results in increase in consumption, and the increase in consumption in turn stimulates investment, which in turn stimulates consumption, so that you have a cumulative process going on. This is the essence of any process of expansion. We have had a great deal of discussion in recent years of the business cycle, and analysis of the so-called "relation" between consumption and investment; and on the other side of the "multiplier", the relation between investment and consumption. We have had considerable clarification in recent years of this process of cumulation. The total effect on the economy may be a good deal more than the mere amount of the increase in the value of exports in primary producing countries, or the mere amount of the initial increase in investment in industrial countries.

"Now, if we are to assess the effect of a currency re-alignment upon the national income, it is necessary to inquire how such a monetary policy affects the volume of investment in mature industrial countries and how it affects the value of exports in countries producing primary products. The second problem -- and the one which mainly concerns a country like Canada -- is relatively simple. The first is more complicated, but it is worth our while to examine into the effect of currency re-alignment upon investment in the mature industrial countries, because even in the countries which are mainly producers of primary products, investment also plays an extremely significant though second-

"ary role in the determination of national income.

"The experience of England illustrates well the casual factors relating monetary policy to investment, capital expenditures and the process of economic expansion. The change in the foreign exchange value of the British pound rapidly strengthened its gold position and provided a broader monetary basis from which expansion could develop. There resulted quickly an improved situation in the English money and capital markets, revealing itself in a low rate of interest."

COMMISSIONER MacKAY: With reference to this expansion of investment in England, following the departure from the gold standard, is it certain that investors took the step they did without assuming that the English pound had reached a stable position? Had they thought that there would be a future change in the gold content of the pound, might it not have greatly affected that investment? It seems to me the assumption there is rather important.

DR. HANSEN: Well, I should say that if you anticipated a further decline in the pound, which however was not expected to develop into a runaway situation, some further decline in the pound (which perhaps would also indicate some expectation with respect to price movements) would itself tend to stimulate investment.

COMMISSIONER MacKAY: But investment of a particular kind?

DR. HANSEN: Well, if it were really an inflationary development, the investment would be in commodity stocks and the like, and that would not be a healthy situation. You must assume that your authorities are managing the situation in such a way that you can depend upon reasonable stability of the price

level. I think that comes to grips with your question.

COMMISSIONER ANGUS: Was there some degree of control of foreign investment in England at that time? Was that a contributing factor - that it was less easy to invest abroad?

DR. HANSEN: The fact that it was less easy to invest abroad had a deterrent effect to that degree upon the expansion, and as a result you had to have a still larger volume of investment internally in England.

COMMISSIONER ANGUS: Was not restriction or discouragement of foreign investment a contributory factor?

DR. HANSEN: Yes; it was a factor contributing to the low rate of interest. There are many factors involved in the British recovery which I have not fully gone into. An extremely important factor in the British recovery was the fact that during the depression the terms of trade were so extraordinarily favourable to England. England was able to buy raw materials and food stuffs at very low prices. It is said that the gain made by the British working classes in the low prices of food stuffs in the depression exceeded by far the whole decline of pay rolls in England. That, therefore, set free a considerable amount of purchasing power among the masses, which they were in a position to expend upon housing, and that greatly stimulated investment. I am far from holding that the monetary factor in England was the only factor stimulating investment in that country. In my opinion the terms of trade were an extremely important factor.

> "In the first period following the abandonment of the gold standard there was evidently no clearly predetermined program designed to control the value of the pound. The pound depreciated under the influence

"of the supply and demand forces operating upon the British balance of payments. For some months after September, 1931, there continued the withdrawal of foreign balances which, as we have seen, had already played an important role in forcing the decision to abandon gold. This development, together with the unsatisfactory trade balance, resulted in a sharp decline in sterling, which decline came to a halt in the Spring of 1932. In the meantime, because of the cautious, conservative policy pursued, designed to prevent price inflation, general world confidence in the British pound was firmly re-established. In consequence, capital began to flow back into England, so much so that the value of the pound tended from the Spring of 1932 strongly to appreciate. At this juncture the Exchange Equalization Account was introduced. Already the Bank of England had offset in a measure the tendency toward the appreciation of the pound by the sale of sterling and the purchase of foreign currencies. It was felt, however, that more vigorous action needed to be taken to prevent the large inflow of funds from raising the value of the pound to a level which might be regarded as burdensome. Thus the Exchange Equalization Account was set up as an arm of the British Treasury. The Account was equipped with 150 million pounds in Treasury bills, from the sale of which it was able to obtain the funds necessary to engage in foreign exchange operations. In the Spring of 1933, under the impact of the American banking crisis and the subsequent abandonment of the gold standard in the United States, further pressure was exerted upon the pound in the direction of appreciation. Accordingly an additional

"200 million pounds was placed at the disposal of the Exchange Equalization Account. This enabled it to enter a vigorous fight to prevent the development of an unduly high value of the pound.

"It is evident that the British pound at first depreciated under the influence of the dealings of private individuals in the foreign exchange markets and in accordance with the supply and demand forces operating upon the British balance of payments, including the movement of private capital in the international market. But it was not long, as we have seen, before the government stepped into the picture with the Exchange Equalization Account and made large purchases of foreign currencies without which action the pound would have risen in value. The foreign balances thus acquired were in large part converted into gold, and a considerable portion of this gold was from time to time placed at the disposal of the British banking system through the sale of gold by the Exchange Equalization Account to the Bank of England. This action occurred particularly at two intervals: first in the year and half following the setting up of the Exchange Equalization Account and subsequently during the year 1936. Thus the gold stock of the Bank of England rose from 122 million pounds in May, 1932, to 314 million pounds by December, 1936.

"The deliberate maintenance of a low value of the British pound through the purchase of foreign balances, and the conversion of these balances into gold, enormously increased the monetary base of the British banking system. Armed with large gold holdings the Bank of England engaged in open market purchases and

"thereby raised the cash holdings of the commercial banks. These in turn, under the stimulus of an increased cash ratio, enlarged their holdings of government obligations and gilt-edged securities. Bank investments rose from 296 million pounds in December 1931 to 630 million pounds in December 1936. The gilt-edged investments and government obligations acquired by the banks were in large part purchased from private corporations and business firms who thereby increased their cash holdings. Thus the liquid position of business institutions was greatly improved and the large holdings of cash balances bit by bit stimulated enterprises to make replacements, to expand their fixed plant, and to replenish their commodity stocks." Let me add that there were forces which were at work as I have already indicated.

"Moreover, the enormous purchase of investments by the banks raised the price of gilt-edged securities, lowered the rate of interest and facilitated - " Please note carefully that I say "facilitated", because I hold firmly that monetary action alone is not really adequate.

" - the conversion operation under which the interest burden of the public debt was greatly reduced.

"It is thus evident that continued maintenance of the low level of the foreign exchange value of the British pound through the operations of the Exchange Equalization Account strengthened the gold position of the banking structure, lowered the rate of interest, increased the liquidity of business firms, expanded the volume of bank deposits, and facilitated the growth of investment and capital expenditures. The rise in investment brought recovery in the capital goods

"industries and lifted the national income.

"Precisely the same process is evident in the recent monetary history of Australia. But the mechanism employed there was in considerable measure quite different and the increased stream of national income was fed from somewhat different channels. In Australia also in the first period, it was the buying and selling of foreign exchange by private individuals that, operating upon the balance of payments, produced a fall in the value of the Australian pound. The supply of foreign exchange was inadequate to meet the demand for foreign exchange at the old exchange parity. For a while the banks endeavored to maintain a value of the Australian pound at a level higher than warranted by the supply and demand forces operating upon the exchange rates. To this end they endeavored to ration the limited supply of exchange among importers. In this they were, however, only to a very limited degree successful. The owners of foreign balances naturally sought to get the highest possible price for the wholly inadequate supply of foreign exchange. This they were able to do through the so-called black or unofficial market. By early 1931, under the leadership of the Bank of New South Wales, the banks rapidly raised the price of sterling to 130, and subsequently an arrangement was made with the Commonwealth Bank under which it undertook the leadership in pegging the exchange rate at a fixed ratio to sterling. Thus in December 1931 the Commonwealth Bank fixed the rate at 125, which thereafter became the ruling rate. Purchases of sterling balances were made on a sufficient scale to maintain this rate. Thus the Australian pound was pegged at a level below that which would otherwise have been

"the case had not these purchases of sterling balances been made. In consequence of this program, together with the interplay of other forces operating upon the Australian balance of payments, the volume of foreign exchange assets held by the Australian banking system doubled from 1930 to 1934. Thus the banks were placed in a strong position to embark upon a program of monetary expension.

"In the early part of the depression until the end of 1930 no deliberate action was taken to remedy the over-valuation of the Australian pound. This over-valuation revealed itself in the detericration of her balance of payments and in the strain on her currency. In 1929 and in 1930 an effort was made to maintain the old parity partly by using, almost to the point of exhaustion, gold and foreign exchange reserves, and partly by increasing the tariff. Both these actions intensified the deflation. The defense of the currency exposed the export producers to the full force of the devastating sweep of the world depression, while the increase of the tariff placed a further burden upon the export producers by raising their costs. The lack of balance of export prices in relation to other prices was intensified.

"Under the continued pressure of an unfavorable balance of payments the Australian pound began, however, to depreciate in February 1930. By December the bank rate on sterling exchange had risen 8 or 9 per cent, while the unofficial or "black" market rate had risen by 15 to 18 per cent.

"Early in 1931 the banks regained full control of the foreign exchange market but only by outbidding the "black" market and thereby forcing a further depre-

"ciation of the Australian pound. Thus a policy of re-adjustment was undertaken. The aim was to achieve an improved balance in the Australian economy, and a better distribution of the national income between the various groups and regions. It was believed that no recovery could be possible in Australia without an improvement in the position of the export producers.

"The program of re-adjustment was undertaken partly in consequence of a general realization that justice demanded equality of sacrifice on the part of all groups and classes. It was definitely clear that export producers had suffered the most from the adverse economic situation and that the heavy burden borne by this group must in some way be placed in part upon the shoulders of other economic groups and regions in order to restore a balance in the whole economy. Thus it was sought on the one side to raise the income level of the export industries by a policy of currency alignment and on the other side to cut wages, salaries, governmental expenditures and interest charges in such a manner that, broadly speaking, the whole community in its various component parts should bear its appropriate share of the suffering incident to the depression. Balance in the price structure and equality of sacrifice as between different groups and regions was the aim and goal of the Australian reconstruction program.

"To carry through the program of equality of sacrifice, it was necessary to take the extreme measure of forcing a breach of private contracts with respect to interest charges. This action, however, was not undertaken lightly. It was not undertaken capriciously.

"Had such action been taken in a quite arbitrary manner, it would surely have resulted in loss of confidence in the integrity of the governing authorities and in the security and legal protection of property rights. The alteration of private contracts with respect to interest payments was, however, undertaken in consequence of the full realization by the public that such action, while it violated the formal rights of private parties, nevertheless rendered essential justice in view of the changed economic situation. Indeed, it was generally realized that a failure to take any action would in fact have defeated equity and justice in terms of the economic realities implicit in the altered conditions. Thus in fact the technical breach of contract, far from resulting in a loss of confidence or a flight of capital, was generally accepted by the whole community as reasonable and equitable. Indeed this action brought renewed hope and confidence, and improved business expectations with respect to the future prospects for Australian industry. Admittedly such a bold and drastic step could not lightly be undertaken. But when a serious economic catastrophe overtakes a nation, a sobering sense of social responsibility can be expected to distinguish formal from real equity. In the face of a threatened collapse of normal economic processes action may be taken which takes account of realities."

COMMISSIONER ANGUS: Did not the Australians go as far as to reduce the standard rate of wages at the same time?

DR. HANSEN: Yes, I mention that.

"The program of currency re-alignment was thus supplemented by a direct re-adjustment of costs and prices.

"Two important consequences for the Australian economy followed. In the first place, there was an improved balance in the flow of income to the different elements in the community, an increase in the money incomes of export producers relative to other groups who had suffered less in the depression. The improved balance in the cost-price structure and in the direction of the flow of income to the component parts of the economy was a necessary basis from which alone a general improvement in the whole national income could develop. In the second place this policy brought about monetary expansion. A deliberate purchase of foreign currencies undertaken in order to maintain the foreign exchange value of the Australian pound increased the reserves of the banking system. Bank loans and investments could now expand. Thus, not only was the value of exports increased by the monetary policy pursued, but supplemental thereto was the stimulus to capital expenditures incident to the low interest rate and the expansion of bank credit.

"It may be well at this point to indicate more precisely the mechanism by which the export values of primary products are raised, and also to make a summary statement of the process by which currency realignment tends to bring about monetary expansion and a rise in investments.

"With respect to the first problem it has sometimes been said that a re-alignment of currency will produce a general rise in commodity prices commensurate with the degree of depreciation. This is not the case. Nor is it true, as some have argued, that the prices of all raw materials will rise by this identical amount.

"It is not even true that the prices of all internationally traded raw materials will respond uniformly to currency depreciation. The effect upon the price structure is extremely complex and it is impossible to make any generalization applicable to all cases. The effect on the prices of different commodities will vary according to the proportion of the total world supply which is consumed in the country which is depreciating its currency. It will vary according to the elasticity of demand for the product in the exporting country and in the importing countries. These are the main considerations, though a complete statement would also require an examination of other factors, including those affecting supply.

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" Two illustrations from American experience will serve to reinforce this point. Consider the divergent movements of the prices of cotton and coffee following the depreciation of the American dollar. The price of cotton rose almost exactly in proportion to the increased price of foreign currencies in relation to the dollar, while that of coffee changed very little. Nearly 80 per cent of the world's output of cotton is consumed outside of the United States. It follows that the American consuming market is relatively unimportant. Thus the world price of cotton is determined mainly by the demand conditions in other countries. Now the demand for cotton in France, England and elsewhere was not in any significant degree affected by the change in the foreign exchange value of the dollar. A given quantity of cotton continued to sell for the same number of francs in France and for the same number of pounds in England. But these francs or pounds could now be converted into more dollars. Hence the American exporter got more dollars for a given quantity of exports. But the cotton producer in America would, of course, be unwilling to sell in the American market for less than could be obtained abroad. Hence, the domestic price rose to the level of the new dollar export price. Now the American demand for cotton is fairly inelastic; that is to say, at a higher price very nearly the same volume can be sold. Thus the supply of cotton placed at the disposal of foreigners was not much affected by a rise in the domestic dollar price. All these factors taken together indicate that the dollar price of cotton could be expected to rise, as indeed it did, approximately in proportion to the depression of the dollar against foreign currencies.

The case of coffee is quite different. A very large

portion of the world output of this commodity is consumed in the United States. Thus the demand conditions in the American Market determine in large measure the world price. Immediately following the devaluation of the dollar the national income and industrial activity in the United States were for a time not much higher and so there was no material change in the domestic (American) demand for coffee. Since the world price for coffee is so largely determined by demand conditions in the United States, and since the American demand remained substantially unchaged it follows that the dollar price would not rise materially and that therefore the price in terms of other currencies would necessarily decline.

Many raw materials stand at some intermediate point between cotton and coffee. With some, consumption is about equally divided between the United States and other countries. In such cases we could expect a compromise solution. The dollar price would rise some, while the price in terms of other currencies would fall some.

Thus we cannot generalize about the effect of currency alignment upon the prices of individual raw materials in a country like the United States. But with respect to a country like Australia or Canada, one can fairly safely generalize. Australian or Canadian consumption of any particular product in the usual case is a very small part of world consumption. For this reason one can regularly expect that the prices of their export commodities will tend to rise, just as in the case of cotton in the United States, by approximately an amount proportional to the change in the foreign exchange value of their currencies.

Currency re-alignment may thus in the usual case

be expected to raise the prices of export commodities and this result has in turn an important influence on monetary expansion and investment. Relief from the deflationary pressure and the continued liquidation of commodities and securities tends to stop credit contraction. But more than that, the process of currency re-alignment, if deliberately brought about through the purchase of liquid foreign assets, increases the reserves of the banking system either directly or in consequence of appropriate supplementary action. If the pegged rate on foreign exchange is maintained by the banks' buying foreign exchange, automatically their foreign liquid assets rise and in countries where banks count these as part of their cash reserves it is clear their reserve position is automatically improved. This was the process actually followed in Australia. The lower foreign exchange value of the currency may also be maintained by the action of the government operating through the Treasury or through a specially set up Exchange Equalization Account, as was done in England. Here the Exchange Equalization Account bought foreign currencies, balances or other liquid assets. It bought these with funds obtained from the sale of Treasury bills to the banks. The holdings of foreign liquid assets were largely converted into gold, and some considerable portion of this gold was deposited with the Bank of England. The latter in turn made open market purchases thereby increasing the reserves of the commercial banks. Thus both demand deposits and the cash reserves of the banks were increased. This was the process in England. In the United States the Treasury engaged to maintain the new value of the dollar in terms of gold. In order to do so, the Treasury stood ready to buy gold, and this gold, except for the period of gold sterilization,

was in effect deposited in the form of gold certificates with the Federal Reserve Banks, thereby re-building the government balance drawn down at the moment when the Treasury purchased the incoming gold. The drafts drawn by the Treasury against its balance with the Federal Reserve Banks and received by the foreign exchange dealers in return for their sale of gold were deposited with the commercial banks. Thus demand deposits increased. The commercial banks in turn deposited these drafts with the Federal Reserve banks, thereby building up the legal reserves of the member banks. This was the process followed in the United States. In all countries the cash reserves of banks were increased by reason of the program of currency re-alignment.

It is, moreover, in the normal case true not only that the monetary reserves of the banks are increased, thereby facilitating the program of monetary expansion through an increase in loans and investments by banks, but it is also true that the prevailing volume of bank balances held by the public may be quickened into action and utilized at a higher velocity in consequence of currency depreciation. Thus by reason of the fall in the foreign exchange value of the currency, holders of idle balances will not infrequently be induced to sell those balances to foreigners who, under the changed foreign exchange ratios, are induced to buy goods or foreign securities in the country depreciating its currency. Thus the balances formerly held idle, pass, via these exchange operations, into the possession of exporters and become active in the commodity or investment market. Thus, not only do reserves and demand deposits tend to rise, but the velocity of monetary circulation also tends to rise. Through the change in

the foreign exchange value of the monetary unit, idle balances tend to flow through the exchanges to export producers and to individuals who are prepared to purchase investment goods. Velocity of circulation and economic activity are thereby increased.

This brief recital of the main developments in England and in Australia and of the economics of currency re-alignment may perhaps serve as a useful introduction to a consideration of Canadian monetary policy throughout the Great Depression. Even prior to the onslaught of the depression Canada was experiencing a deterioration in her balance of payments and a strain upon her currency. Indeed, it is well known that from the beginning of 1929 Canada was technically off the gold standard. Already in 1928 the intense stock market speculation in New York had induced a flow of capital from Canada to the United States. With a fairly high degree of equilibrium in the current items of the balance of payments this had resulted in a loss of foreign banking assets and monetary gold amounting to 163 million dollars. From 1928 to 1929 occurred a drastic shift in the balance of trade. The value of exports in relation to imports fell from a surplus of 131 million to a deficit of precisely the same magnitude. Thus in a single year there occurred a shift in the balance of trade of the magnitude of 262 million dollars. This shift was offset in part by a cessation of the flow of Canadian capital to New York and in large measure by the continued loss of liquid assets and monetary gold amounting in 1929 to 126 million dollars. As far as one may judge from the movement of gold and foreign exchange assets, the Canadian dollar was heading toward a fall in its value in relation to other currencies. That such a fall in value would have occurred in the year 1930 had some

measure of positive action not been taken to prevent it, appears to be highly probable.

Confronted with a deterioration in its balance of payments and the consequent strain upon its currency a country may make one of three choices. First, it may adopt a policy of currency re-alignment -- as did England and the whole sterling area."

Here let me say a word about the much debated question with respect to whether or not a policy of re-alignment is deliberate or whether it is forced upon a country. Let me say that the question of whether it is deliberate, or to what extent it is deliberate, is an extraordinarily difficult one, as we know from the actual experience of the last ten years.

After a country has adopted a policy of re-alignment there is frequently debate as to whether or not it had been forced upon the country, or to what extent it was a deliberate policy, and there is very much disagreement about that. Now, as a matter of fact it seems to me that the all-important question which we have to consider with respect to this matter is this: A country choses how much deflation it is willing to undergo. If a country is willing to undergo a tremendous lot of deflation it is surely probable it will not have to abandon the gold standard. If however, a country choses, or if a country feels that it just cannot stand the degree of deflation necessary to maintain the gold standard, it is that act of choice as to the degree of deflation it will tolerate which determines in large part whether or not currency re-alignment necessarily follows. Therefore the choice of internal policy determines in large part what will be the subsequent exchange value of the currency, and that choice of internal policy lies in terms of how much deflation will a country tolerate.

I think it is an extremely important lesson of the last decade that you cannot talk about the change in the foreign exchange value of a country without first considering the internal policy with respect to the degree of deflation a country is willing to undergo.

COMMISSIONER ANGUS: Would you bring in your question morality at that point and what degree of deflation a country is willing to tolerate?

DR. HANSON: That is a question of judgment very difficult to determine at the moment. Certainly we must all realize that the monetary policy in any country has to take cognizance of a great many factors upon which to make a judgment. All the various factors in the current situation must be weighed. I sympathize very much with the monetary authorities in that very difficult problem.

COMMISSIONER ANGUS: What you have spoken of as choice may or may not, I suppose be a deliberate choice, taking all these factors into account.

DR. HANSON: It may or may not be a deliberate choice, taking all those factors into account; and the choice that is made, may, of course, have a great deal to do with the institutional arrangements in the country which would determine in considerable measure the degree of deflation the country could stand. For example, a country that had a very powerful trade union very obviously would face very much greater resistance in its social structure if it attempts a very drastic process of deflation. So the institutional arrangement

would have very much to do with the judgment arrived at.

I continue with my brief:

" Second, it may choose to institute rigorous exchange control and thereby sustain the prevailing exchange value of the monetary unit. This amounts in effect to a rationing process by which the supply and demand for foreign exchange is kept at equality through a rigorous allocation of the available supply. This was the policy adopted by Germany in the early summer of 1931. Thus she embarked upon a course which bit by bit led irresistably on toward an all-around regimentation, not merely of foreign trade and international financial relations, but finally of the internal economy itself. A third choice is to pursue a policy of deflation. This method seeks, through credit contraction and a drastic reduction in costs, prices and national income to check imports and thereby bring about a sufficient equilibrium in the balance of payments to defend the foreign exchange value of the monetary unit. This was the policy adopted by France and pursued relentlessly to the end at great cost to industry and employment. Finally in 1936 this rigorous policy of deflation produced a labor and social revolution. Thus at long last it was demonstrated that deflation was an unworkable program also for France. An expansionist policy was adopted and thereby of necessity an abandonment of the gold standard.

It will not do to say that a country makes no choice. Confronted with a deterioration in the balance of payments, a country is forced to make choices. It may seek adjustment in terms of an alignment of its currency. Or it may choose to maintain an overvalued currency by a variety of methods, all of which, however,

are costly in terms of national income or in terms of hampering restrictions on free enterprise."

COMMISSIONER ANGUS: Don't you think that the government frequently have a very great interest in appearing not to make a choice.

DR. HANSEN: Yes, I think so. As a matter of fact, I am going to comment on that at a later point.

COMMISSIONER ANGUS: There is a tendency to say: "My property but not my will consents."

DR. HANSEN: I think you are quite right. I am going to comment on that later.

I continue:

"That some positive action was taken in Canada, whether by accident or design, is evident. In the first place, action was taken to raise the tariff. Such a policy checking imports tends indeed to bring about an improved equilibrium in the balance of payments. But it achieves this result by administering a further blow to export producers. In the second place, the Dominion took steps in 1930 to borrow $100,000,000 in the New York market. This action helped to sustain the foreign exchange value of the Canadian dollar."

I am not discussing what were the various factors involved in placing that loan. It may well be that the exchange rate was not considered by the authorities. The question might be raised whether the fact/that the Dominion had not borrowed in the New York market would/not have pushed out new internal issues into / the New York market.

I think that well might be the case.

It might well be that in addition it would also have been necessary to take a definite step in the direction that I have already discussed, namely, a definite step in the direction of stopping the deflation by an/internal expansionist

program. Such a measure, would, I think, definitely have resulted in a decline of the foreign exchange value of the Canadian dollar in that year.

We do note how, when a small expansionist measure was taken in 1932, it affected for a time, at least, the foreign exchange value of the Canadian dollar.

COMMISSIONER ANGUS: I suppose, too, that government operation in foreign markets and in foreign currency has, in a sense, an effect on the exchange value of its own Canadian currency.

DR. HANSEN: If there are large holdings of a country's bonds abroad, it can always use the foreign balances to repatriate those bonds. That, I think, is an important matter to bear in mind in connection with your question.

COMMISSIONER ANGUS: In so far as it did that it would have an affect on the exchange, would it not.

DR. HANSEN: I am assuming that it buys foreign balances for the purpose of currency re-alignment; and if these balances accumulate unduly it can use those balances to repatriate their foreign held bonds, thereby minimizing any risk involved in holding those balances.

COMMISSIONER ANGUS: It repatriates its bonds later.

DR. HANSEN: Yes, or it might do so at once.

COMMISSIONER ANGUS: This would have no affect on the exchange rate?

DR. HANSEN: It would have an affect if it bought the bonds in the first instance directly. If it had already purchased foreign balances, a subsequent purchase of bonds with those balances would have no effect on exchange rates.

COMMISSIONER ANGUS: Then, that would only mean that it had made a more favourable purchase than it might have anticipated.

DR. HANSEN: Yes. I continue with the brief:

Some adjustment to the disequilibrium in the Canadian balance of payments was thus achieved by pursuing a deflationary policy under which the national income fell to a level sufficiently low to reduce the volume of imports from $1,300,000,000 in 1929 to $611,000,000 in 1931. Any improvements thus secured in the Canadian balance of payments was, however, purchased at the cost of intensified disequilibrium in her internal economy. This is true for the reason that the export producers were, under the policy indicated, subjected to the full pressure of the world deflationary forces. Moreover, the successful maintenance of the foreign exchange value of the dollar made impossible a program of monetary expansion and indeed led to a policy of banking contraction.

I would here like to emphasize that it is quite impossible for a country to pursue at the same time both a policy of maintaining an overvalued currency and a policy of internal expansion. The two are necessarily inconsistent, and it is quite impossible to pursue both. If you choose to maintain an overvalued currency you must choose to deflate.

I continue:

" At the beginning of the depression the banks had borrowed from the Dominion government under the Finance Act 80 million dollars. The process of deflation and the loss of business confidence, as pointed out by Mr. S. R. Noble in his illuminating chapter in Gayer's "Lessons of Monetary Experience", led, as it did in all countries under similar circumstances, to a liquidation of assets and a general desire on the part of banks and business firms alike to achieve a high degree of liquidity. In this period the banks reduced by 60 million dollars their borrowings, under

"the Finance Act, from the Dominion government. But, while this action scaled down their indebtedness, by the same stroke it reduced by an equal amount their cash holdings. Thus their cash reserve position was worsened, and this led to a further contraction of bank credit.

Had a policy of currency re-alignment been chosen, it is not unreasonable to suppose that Canada might have avoided half of the decline in the national income which actually developed under the impact of the drastic deflation which was allowed to run its course."

I may say I do not lay any special weight upon this figure. It is not worth very much, and I am quite willing to admit it.

I continue:

" From September 1931 to April 1933 the Canadian dollar found a level approximately half way between the American dollar and the British pound. In 1932 there was a further loss of monetary gold and foreign exchange of 50 million dollars. In addition the government borrowed 60 million dollars abroad. The high tariff policy continued, supplemented in late 1931 by anti-exchange-dumping legislation and by increased protectionism in the form of administrative valuation of imports. During this period the national income continued to fall by over a billion dollars from the already low 1931 level.

Offsetting the improvement in the position of the export producers who sold mainly in the American market, was the further fall in the value of exports of the Prairie producers who sold in the British market. The depreciation of sterling against the American dollar and the intermediate position of the

Canadian dollar created new maladjustments in the Canadian price structure. Hitherto these maladjustments had run partly in terms of export prices on the one side and domestic prices on the other, and partly in terms of raw materials prices on the one side and finished goods prices on the other. A new cleavage now developed between the export producers selling in the American market and the export producers selling in the British market."

And this fact, I may interject, creates a matter of very great difficulty for Canada's monetary policy. There is no question that the control of monetary policy in a country which is related to two important markets, the currency of one of which is heavily depreciated while the other is not, presents a peculiarly difficult problem. About that there can be no question.

I continue:

"The export producers in the American market were now in a stronger position by reason of the rise in the value of the Canadian dollar against the American dollar; while on the other side the export producers selling in the British market suffered a further decline in their income by reason of the appreciation of the Canadian dollar against the British pound. Renewed pressure was thus brought to bear upon the western provinces, pushing them still further down in relation to the remaining Canadian economy."

I should like to interject there that it is a great mistake to assume that the decline in the value of the Canadian dollar with reference to the American dollar really offered relief to the western provinces. It had quite the opppsite affect because there was at that moment an appreciation, a positive appreciation, of the Canadian dollar against the market in which these western producers

sold; so that the half way position, instead of offering relief to the western producers, placed them in a worse position.

I continue:

" The principle of reasonable equality of sacrifice, of balance in the internal economy, was not realized. "

Now, of course, I must emphasize again that is an extraordinarily difficult principle to achieve in a country like Canada that lies in between those two such markets, when the currencies of which are not in line.

I continue;

" The 20 per cent depreciation against sterling selected by the Australian authorities might or might not have been appropriate for Canada. In view of the importance of the American market, it is not unreasonable to suppose that a 10 per cent depreciation against sterling after England abandoned the gold standard might have proven acceptable."

Again I lay no great weight on the 10 per cent depreciation. I continue.

" The difference between a 22 percent appreciation against the British pound and a 10 per cent depreciation would have been enormous in terms of the income of the western provinces and in terms of an improved balance in the Canadian economy. A moderate depreciation of 10 per cent against sterling would have amounted to approximately a 35 per cent depreciation against the American Dollar. Such a figure, while it would have given less than justice to the western producers, might nevertheless have set the limit of permissable depreciation in terms of the optimum balance between the Canadian export industries as a whole and the rest of the Canadian economy."

Let me call attention to the fact that there was actually a twenty-two per cent appreciation of the Canadian dollar against the British pound on the average from December 1931 to March 1933. That is to say on the average in that period British depreciation amounted to 71.5 of the old gold parity and Canadian depreciation amounted to 87.2 of parity, thus the Canadian dollar was appreciated against the British pound by twenty-two per cent, a very considerable amount, at the same time it was depreciated against the American dollar by 12.8 per cent.

Now, I am quite willing to admit that it would be difficult to make a judgment with respect to the appropriate degree of currency alignment in such a situation. I may, however, call attention to the fact, that debts were still at the level in large part, of the nineteen twenties and that you would have to achieve a very considerable rise in prices and in income in order to obtain a balance between income and debts. In view of the value of sterling and in relation to the American dollar, it would have been necessary to raise certain prices out of line, in order to get a general weighted balance in the whole situation.

Now, that was unfortunate but necessary. I admit it was difficult for the monetary authority to weigh all the factors and to determine upon the appropriate degree of currency realignment. But that is just the kind of problem it seems to me that monetary authorities must face in the future.

It is not correct to assume that if the monetary authority does not act it will not assume any risk. We have learned in the last decade that often one encounters very much greater risk by not acting than by acting in a manner which may seem bold. You can never be sure that your action is really right.

THE CHAIRMAN: You might perhaps resume at 2.30?

DR. HANSEN: Yes, sir.

(The Commission adjourned at 1.00 o'clock to resume at 2.30 o'clock)

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AFTERNOON SESSION

The Commission resumed at 2.30 p.m.

DR. ALVIN H. HANSEN (continuing): Mr. Chairman and Members of the Commission, I turn now to certain objections which have been raised against the policy of currency re-alignment:

> "1. The question has been raised whether a policy of letting the Canadian dollar go in the first period under consideration -- that is to say, the period from the onslaught of the depression to September 1931 -- or even to have pegged it at a fixed ratio to the British pound, might not have resulted in serious loss of confidence in the Canadian economic situation and in Canadian governmental policies. It has been suggested that a loss of confidence and severe deflation would indeed likely have followed a policy of depreciation."

Let me say here, and this is in reply to a question that Professor Angus raised this morning, that a country naturally does not announce from the housetops that it is going to depreciate its currency as though that were an end in itself. It is not an end in itself, of course, The end that is desired is to prevent deflation, to maintain the national income, to create internal stability, and within the framework of that end it is naturally the policy of the government to defend its currency, to maintain its value, so far as that can be done within the framework of that policy. So that any announcement the government has to make would be in terms of a program of internal stability, and the defence of the currency within the limits of that program. Such a program ought to inspire confidence rather than the reverse. Continuing:

> "With respect to this problem, it is to be noted that loss of confidence may assume various forms. There

"may be loss of confidence in the banking system; or there may be loss of confidence in the trend of property values; or there may be loss of confidence in the stability of the foreign exchange value of the currency. The first is likely to reveal itself in a run on banks with attendant forced liquidation of banking assets and deflation of security and commodity prices. The second is likely to manifest itself in a desire to hold large balances in the form of idle bank deposits. The third is likely to show itself in a flight into foreign currencies.

"Now with respect to the first type, it is extremely important to note that there was never any loss of confidence in Canada in the banking system as such. We can thus set aside any possible danger that loss of confidence of this type would have resulted from a policy of currency alignment. Having utmost confidence in the banks, there could have been no disposition on the part of the public to hoard actual cash, or money in the sense in which we usually use the term. But people might still have 'hoarded' by holding bank balances idle. Lack of confidence of this type, the second type mentioned, was already depressing the Canadian economy. In consequence new investments and even replacements were rapidly declining. Thus the whole economy, under the policy of so-called sound finance, was swiftly descending to lower and lower levels. I can find no shred of evidence in the wealth of world experience during the last decade that matters might have been still worse had the currency depreciated. On the contrary, both theory and experience indicate that depreciation of the currency tends to drive hoarders of idle balances into the commodity and security markets in expectation

"of rising prices, and into foreign currencies in expectation of a possible further fall in the currency. In this manner the velocity of circulation of money is increased. Thus the belief that the Canadian dollar might fall further would have reflected itself in a flight from cash hoards into commodities, securities and foreign currencies. Foreigners, because of the more favourable exchange rates offered, would have been stimulated to buy Canadian goods. Thus the balances formerly held idle would tend to flow through the exchanges to Canadian exporters. Exporters now finding their incomes increased would spend more. Thus the stimulus would spread to other industries. Moreover, it must be remembered that the very process of currency depreciation in and of itself tends, as we have indicated already, to create new bank deposits, since the funds with which the Treasury buys the foreign exchange are obtained by borrowing at the banks. Both the volume of bank deposits and their velocity tend to rise.

"The indicated expansion, if it should proceed far enough, could, of course, ultimately lead to serious price inflation. At all events this is quite a different matter than the feared deflation and contraction. Yet on this point also both theory and experience are reassuring. During the period in question most countries or many countries, at any rate, were experiencing a sharp downswing, and this in itself would have dampened any tendency toward excessive price inflation in any one country. Moreover, any government has at its disposal a variety of weapons with which to check both excessive depreciation and internal price inflation."

I should like there to refer to the German experience, about which we hear so much - the German inflation in 1922 and 1923. It was regularly said, I think quite wrongly, by monetary writers in Germany at that time, that Germany really had no control of the situation, that various factors operating upon her balance of payments were forcing the mark down to lower and lower levels, and that in consequence of that development the price level internally was constantly rising. Now I think this view took no cognizance of the very simply though somewhat crude quantity theory of money. Dr. Schact, when he assumed the obligation of bringing order out of monetary chaos in Germany, proved I think quite conclusively the error of the line of reasoning which argued that they could do nothing about the inflation that was going on. Once Schact stopped the printing presses, once he stopped the internal monetary expansion, foreign exchange rates also fell in line. Thus the real secret of control of an excessive depreciation and of internal price inflation is a check to undue monetary expansion.

I think it is quite obvious that we have very powerful monetary anf fiscal controls to check inflation. If we had as powerful monetary and fiscal controls to create an expansion, we would have no great difficulty in achieving a good deal of economic stability.

The difficulty is much greater on the side of expansion. There, as I have already indicated, monetary policy may do a great deal to stimulate and prepare the way for expansion, but it is frequently quite inadequate by itself alone. The demonstration by Dr. Schact in Germany is, I think, quite illuminating.

COMMISSIONER ANGUS: With regard to confidence, the existance of checks is important, of course; but when one is thinking of confidence, it is a matter of the public knowing that the checks are there, and knowing that they

are powerful and effective. You say it was quite wrongly supposed in the case of Germany that there were no checks; but if you have that erroneous belief, it may itself to some extent undermine confidence.

DR. HANSEN: I should say that the monetary authorities in Germany at the time were quite remiss in their duty. They should very quickly have shown the public that the checks were there. But they applied no checks. The public quickly becomes aware ofthem when they are applied. But you are quite right, Professor Angus, that if they are not applied, then public opinion feels that they do not exist.

COMMISSIONER ANGUS: I say this, not with any particular reference to Germany or any other country, that if a government quite suddenly proceeds to use methods that are somewhat novel, that show a certain confidence in the ability to control something that has not popularly been thought of as controllable, and if it attempts to do that, exercising, as you have put it, caution, moderation, restraint, is there not a possibility of the public thinking of that rather in the same way as giving a bottle of brandy to an Indian and saying to him: Use this with caution and restraint.

DR. HANSEN: Yes, I think you are quite right. There is almost certain to be an interim period of hesitation and uncertainty, particularly if the public has had little experience with this type of policy. I think we can see that in England. But I think if it is reasonably well managed, that period of hesitation ought not to be very long, and it is at any rate very much to be preferred to a continued process of drastic deflation.

COMMISSIONER ANGUS: I am inclined to agree but is there not this distinction? When England, Australia, Canada and the United States took action, they were really standing with their backs to the wall. They were in an extremely critical

position where they had to do this, and they did it with the utmost reluctance, and perhaps that reluctance on the part of the government inspired confidence that it was not being done with an unlimited objective; whereas if the government had gone into it a little earlier and had made one of its avowed objects the loosening-up of business, preparing the way for expansion by monetary methods, is there not a chance that it would have excited expectations of a policy of inflation which would have frightened some people and attracted others, with the chance that there would be political pressure which might carry the government beyond its objective as you define it?

DR. HANSEN: I agree with a great deal of what you have said, Professor Angus. I would, however, suggest that I am frequently quite astonished at the rapidity with which the general public becomes accustomed to very strange things once they are a fait accompli. The public very quickly adjusts itself to a fait accompli. You might think before it happened that it was quite inconceivable that the public would adjust itself . but in the last decade we have seen over and over again how quickly the public have adjusted themselves to a new situation.

I mention Belgium as an example. Depreciation came there after other countries had depreciated their currency, and Iknow for afact that public authorities in Belgium were quite concerned about the depreciation of their currency because they believed that, living so close to Germany, the public would instantly respond whe to any depreciation of the currency by way of a flight to commodities, and that there would be a quick adjustment of prices and costs at once to the changed situation, and this wouldrob them of any advantage from currency re-alignment. As a matter of fact that did not occur at all, and they themselves I know were very much surprised how quickly the country

Achieved confidence in the new situation. But over and ower again, one sees that once the step has been taken, if it is reasonably well managed the public adjusts itself very quickly. But I quite agree that there is almost certain to be an interm period of hesitation and uncertainty, and that it operates upon different individuals in different ways. So there is a kind of balance, with some people speculating on an expansion, while others are holding back and wondering what is going to happen. But the likelihood is even in that period of hesitation that there will be less deflation than if the action had not occurred, and I think world experience shows that. Continuing:

> "One of the best indices of the state of business confidence is to be found in the movement of bond prices. If people have confidence in the future, in stability, they will be prepared to buy income-yielding assets, such as bonds and mortgages. Now the movement of bond prices in England, Australia, the United States and Canada following the depreciation of the currency in all cases reveals a strengthening of confidence defined in this manner. Thus in the case of Canadian bond prices, an index of the Dominion of Canada Long Term Bonds, derived from the 1937 Canadian Year Book, reveals a marked rise in bond prices beginning with the last half of 1932 and extending down through until 1936. In the United States interest rates on long-term, gilt-edge securities began to fall, or conversely bond prices began to rise rapidly following the period of depreciation and continued on an easy money basis until 1937. The same phenomenon of easy money rates or high bond prices is evident in the record in England and Australia.

"2. It has been suggested, moreover, that the monetary policies indicated above in either of the two periods under consideration could not have been undertaken in Canada for the reason that Canada then had no central bank. This belief, apparently so widely held, is surely quite without foundation. It should be noted that the maintenance of the British pound at a level about 25 to 30 per cent below its former gold parity from the early spring of 1932 to April 1933 was not implemented by the Bank of England. In the early Spring of 1932, when the pound was tending to appreciate, it is true that the Bank of England for a brief period purchased foreign currencies and thereby controlled the tendency toward appreciation. But very quickly the Treasury undertook this function by setting up the Exchange Equalization Account. Thereafter this new arm of the Treasury undertook the task of maintaining the pound against the tendency toward appreciation. It is similarly the case that the Federal Reserve Banks in the United States have played no part in the maintenance of the dollar at the new fixed rate.

"Let us consider the mechanism by which the Canadian Treasury could have pegged the foreign exchange value of the dollar at the appropriate rate determined by a balanced monetary program. All that was requisite was that the Treasury should buy sterling and other foreign currencies. It could obtain the Canadian bank balances with which to buy the foreign assets in either of two ways. It could deposit Dominion notes with the Canadian banks, or it could sell Dominion obligations to the Canadian banks in exchange for bank deposits. The latter is clearly the more orthodox method. There is no good reason for financing

"the purchase of these foreign cash balances through the issue of paper money any more than there is good ground for financing a general government deficit in this manner. Whereas early in the nineteenth century the financing of a government deficit by the issuance of paper money was fairly common, government deficits in the twentieth century, even during the Great War, have regularly been financed by the sale of interest bearing government obligations. In the peculiar condition in which Canada found herself without a central bank it is of course true that the issue of Dominion notes to the Canadian banks would have had the same effect as open market purchases by a central bank, and to this extent the issue of Dominion notes might, under conditions in which monetary expansion was desired, be permissible. However, in the case in question, the financing of the purchase of foreign balances by the issue of interest bearing Dominion obligations could itself be implemented so as to increase the cash reserves of the chartered banks to such extent as might seem desirable.

"The mechanism then which seems most appropriate is the customary method of selling interest bearing obligations to the banks and to the public, and with the funds thus obtained to buy the foreign exchange necessary to peg the Canadian dollar at the rate deemed appropriate.

"The foreign exchange thus obtained could advantageously be utilized to re-purchase Dominion obligations held abroad. In part, in so far as it was deemed desirable to facilitate internal monetary expansion, it could be sold to the banks to increase their monetary reserves. The cash balances thereby obtained by the government could then be used to finance extraordinary Dominion capital expenditures designed to promote internal expansion.

"3. It has been said that no gain could flow to the western provinces as a result of currency re-alignment, befause any advantage accruing from the higher value of exports would have been offset by the higher price of imports and of retail purchases in general. This argument, however, is definitely erroneous. This can be shown both on grounds of experience in various countries and also on grounds of general reasoning. The record of import and export prices, in the various countries which have in recent years depreciated their currencies, indicates that the response of import prices to currency depreciation is relatively sluggish. Thus in the United States from January 1933 to January 1935 import prices rose by only 26 per cent, while the export prices of foodstuffs rose 48 per cent and those of other raw materials 54 per cent.[1] In England import prices were highly stable in the three-year period following the abandonment of gold. Import prices in general stood at 65.7 in 1932 and at 65.4 in 1935.[2]"

CO (1. P.T. Ellsworth "Export, Import and Domestic Prices in the United States, 1936," The Review of Economic Statistics; November, 1937.

2. League of Nations, Review of World Trade, 1935, pp. 78-9.)

COMMISSIONER ANGUS: Is that true of imports as imports, or are those factors largely affected by the special circumstances you refer to in the case of coffee?

DR. HANSEN: Yes, they are affected by different circumstances with respect to the individual commodities, and I shall refer to that in a moment. There would certainly be a considerable number of important imports into Canada which would rise absolutely by the amount of the depreciation.

COMMISSIONER ANGUS: England was a dominant market for a great many goods.

DR. HANSEN: That is right.

COMMISSIONER ANGUS: And therefore one would expect the import price not to rise very much because that was a dominant market. So could one argue from this percentage applied to Canada?

DR. HANSEN: You are quite right, Professor Angus; we cannot generalise in the abstract. I shall deal with that in a moment when I compare the situation in such countries as England and the United States with the situation in Canada.

Continuing:

> "This experience holds apparently both for countries with huge import markets, like the United States and England, and for exporting agricultural countries which import largely manufactured goods."

In general the same generalisation will apply to Canada. But you are quite right, Professor Angus, that you cannot generalise in the abstract.

Continuing:

> "With respect to large consuming countries, such as the United States and England, it is quite easy to see on grounds of general reasoning why one should expect this result. This is quite well illustrated by the cases, which I have already cited for the United States, of the differential behaviour of the price of cotton, an export commodity, and the price of coffee, an import commodity. The American market is the predominantly important one for many of the raw materials that are imported into the United States, such as coffee, rubber, silk, and the like. The world price of such commodities is very largely determined by the demand situation in the major importing consuming country, the United States."

There are non-monetary factors always operating on the price of these commodities, which one has to abstract to see what was the monetary influence. There might be natural phenomena, a great change in the output which would affect supply, and various other factors. One must try to abstract what was the monetary influence. For example, in the United States, as recovery accelerated, there was at once a great rise in the production of automobiles and a great shift in the demand for rubber, and this had nothing particularly to do with the monetary situation except in so far as the monetary policy in the United States contributed to the recovery. There are a great many factors, and it would take a long time to go into all the complexities of the case.

Continuing:

"The same is true more or less of the important imports of foodstuffs and raw materials in England; that is to say, it is the dominant market. Because of this fact the price in the importing, consuming country (in the absence of a special shift in demand for the particular commodity in question) is likely to rise relatively little by reason of the change in the foreign exchange value of the currency. The extent to which the price of any one particular commodity rises in the importing country is determined, as we have already seen, by the relative importance of the importing country as a consumer of the world supply, by the relative elasticity of demand for the product in the importing country as compared to the elasticity of demand for the product in the exporting countries, by peculiar changes in the demand for the commodity in question, and by some other considerations, as we have already indicated, such as the conditions affecting supply. Thus, while the

"degree of price rise will vary with different commodities according to the special circumstances referred to, it is nevertheless in general the case that the prices of imports into large consuming centers are in the usual case for some time relatively little affected by currency re-alignment. Eventually the rising national income will of course affect the general level of prices in the direction of restoring a normal or more normal balance in the price structure.

"With respect to countries in which the consuming markets are relatively less important, such as Canada or Australia, it would in general be the case, as far as raw materials are concerned, that the prices of such commodities would rise by the full amount indicated by the degree of currency depreciation.

That would be true of many important raw materials that go into industry, such as cotton, wool or coal that is used as fuel in various industries, rubber and the like. It is clear that they would rise by the full amount of the depreciation.

It is, however, the case that primary producing countries, such as Canada and Australia, import relatively few raw materials though the volume is important. While they do import important raw materials for their industries, for the most part their imports consist of finished or semi-finished manufactured products. Now the reaction of the prices of manufactured imports is very different from that of raw materials in countries such as those I am now considering. The foreign producer will face serious sales resistance in the case of most manufactured products if he unduly raises the price in terms of the currency of the importing country. Particularly is that the case if there has been any important revival, any important increase for the moment in the national income.

"Moreover, he has to face the competition of domestic producers who, by reason of the depreciation of the currency, are now in a stronger competitive position with respect to foreign manufactures. Now it might, of course, be argued that, being in a more sheltered position, the domestic producers will at once proceed to raise their prices. This, however, is extremely unlikely in a condition of widespread unemployment and depression. This is the point I want to emphasize particularly. The domestic producers under these circumstances are far more eager to extend their sales than to raise the price. Under the protection of the depreciated currency the domestic producers would be in a strong position to take the market away in large measure from the foreign producers through price competition. Thus the foreign producer, if he wishes to hold his market, will be compelled to meet this competition and to continue to sell at something like the former price. In this manner the impact of currency depreciation, as far as the price of manufactured goods is concerned, is likely to be borne in a very large measure, at least for a time, by the foreign producer and only in part by the importer or domestic consumer.

"It is well known that in the early stages of an expansionist movement, that is to say, a revival from deep depression, when there is still widespread unemployment of resources, an increase in income tends to result in a larger volume of sales and in an expansion of output rather than in an increase in the prices of manufactured goods. Thus in the United States, for example, in the period from January 1934 to the Autumn of 1936 there occurred a very large and rapid increase in national income and output, without

"any increase at all in the general level of industrial commodity prices, feed and farm products excluded." Here let me say a word about the importance of fixed costs in many industries. It is highly important in connection with the point I am discussing to differentiate between fixed and variable costs. The latter are the costs of material and labour, which rise with increased output. Even though there were a rise in the prices of imported raw materials used by the manufacturing industry to the full extent of the depreciation, (and this would regularly be the case), that might well be offset by the reduced fixed costs per unit of output by reason of increased sales. Thus the total unit cost, combining fixed costs and variable costs, might even be less than before. Consequently the producer can sell at the same prices and make a larger profit even though there had occurred an increase in the price of the imported raw material -- an increase fully commensurate with the amount of the depreciation.

Certain important industries in Canada, such as the textile industry, the machinery industry, the automobile industry or the rubber industry -- industries that import essential raw materials -- have important fixed charges. In these industries there is an important offset therefore to the higher cost of raw materials in the reduced cost per unit of output in terms of fixed charges.

That difference between fixed and variable costs explains why regularly in every advance from the bottom of a depression you have first expansion of output without any important increase in the finished goods price, even though the prices of raw materials may rise rather rapidly. Increased volume means larger profits.

Continuing:

"This is the normal development. Income expansion first brings larger output, a larger volume of sales at approximately the same price. By reason of the in-

"creased output the profit margin is raised, since fixed charges do not rise. It is thus evident, I think, on grounds of general economic analysis that one would expect these import prices to respond relatively sluggishly to currency depreciation both in countries that are large consumers of raw materials as well as in primary producing countries which import mainly finished manufactured goods, such as Australia or Canada. This analysis, as I have indicated, is supported by experience.

"It is to be noted, however, that at the bottom of the price deflation, import prices in a country like Canada fell very much less than export prices." The figures are these. At the bottom of the price decline the import price index stood at 71, as compared with a basic price of 100, and the export price index stood at 55 -- a tremendous divergence. The export price index of farm products of the field stood at 41.

Continuing:

"This is fundamentally due to the difference in the character of import commodities and export commodities. Export commodities consisting so heavily, for a country like Canada, of farm products and other raw materials, are extremely variable and fall very greatly, whereas import commodities are largely finished or partly finished manufactured products whose prices fall in the category of what are frequently called administered prices; nowadays particularly when the monopoly or quasi-monopoly situation enters into it so largely. In the case of manufactured commodities the process of production is carried on under institutional arrangements of a character such that adjustment to the decline in demand can readily be made on the supply side.

"Therefore, a change in demand reflects itself more in changes in output and less in terms of price changes."

That is the reason why in the case of manufactured goods the output falls drastically but not the price, whereas in the case of primary products the output remains nearly constant while the price declines drastically. Continuing:

"Thus the experience with respect to the down-swing of prices reinforces the analysis which I have just made with respect to the price behaviour of these two groups of commodities in an upswing period. Just as export prices fall more than import prices in the down-swing, so they rise more in the up-swing, and especially in an up-swing caused or accelerated by a realignment of the currency.

"It is thus not true, as has been alleged, that the western provinces would make no gain by reason of a realignment of the Canadian currency because of the alleged offsetting disadvantage of rising import prices. Moreover, it must of course be remembered that a very large part of the expenses to farmers remains relatively constant regardless of the movement of commodity prices. Debts, taxes and many other fixed charges, such as public utility rates and the like, are relatively fixed. Thus a rise in income, altogether regardless of the relative movements of specific commodity prices, offers, as everyone is surely aware, an enormous relief to the regions producing primary products.

"4. Objection has also been raised that a policy of currency realignment might not have offered any real advantage to the prairie provinces, owing,

"it is said, to the effect of the process of depreciation itself upon the price of wheat and other export commodities in the foreign markets. It is said that in the event that a higher Canadian price is temporarily obtained, the surplus stocks held by individuals or centralized commodity pools would at once come on the market and tend again to depress the price. Thus even from the short-run standpoint no gain would ensue. From the long-run standpoint it is said that an improved price would tend to induce expansion of acreage planted in subsequent years and thereby tend in the long run to exert a downward pressure on price.

(Page 10453 follows.)

"Neither of these arguments constitutes a valid objection to the program of raising export prices by means of a policy of currency re-alignment. Both arguments assume the fatalist attitude that, whether from the long-run or the short-run standpoint, an improved price level only creates new tendencies which are bound to bring the price level down to a disastrously low level. It assumes that the prevailing low prices are, for some unexplained reason, inevitable. It is, of course, a fact that the overhanging surpluses, which constituted a peculiar problem during the Great Depression, exerted a depressing influence on price."

One of the striking inverse correlations which you will find set out in the bulletins of the Economic Intelligence Service of the League of Nations is the rise of the commodity stocks - raw materials - during the depression and the fall in price, and subsequently, with revival, the decline in stocks and the rise in price. So that you have a direct inverse correlation between overhanging stocks and the price.

"But,now, since these overhanging surpluses had been taken account of by the market, the effect was already apparent in the current price. The effect on price need not await the time when the stocks are actually placed on the consumers' market. The overhanging surpluses, even while they are withheld from the consumers' market, nevertheless exert a profound influence on the prevailing market price. The notion that they affect the price only in the event that they are actually put on the market could be true only in a world in which there were no speculators. In such an economy the direct flow of supplies from the producers to the ultimate consumers would directly and immediately

"control the current supply and demand schedules. When, however, there intervene between the producers and the ultimate consumers commodity speculators who increase or decrease their holdings of stocks according to their judgment with respect to current and prospective supply and demand, the mere unloading on the part of producers of certain surplus stocks may have no important consequence on the current price."

Here let me refer to a bulletin by Dr. Holbrook Working entitled "Price Effects on Canadian Wheat Marketing" covering the last fifteen year period, published in Stanford University Food Research Institute Bulletin for October, 1937. Dr. Working shows that despite the very sharp fluctuations in the rate at which the stocks were moving from the farmers into the central markets, despite the violent fluctuations in that rate, prices were hardly affected at all. That is to say, the whole system of organized exchanges and terminal facilities and speculation offset any abnormal flows, so that these abnormal flows had almost no appreciable influence upon price. If the producers held more, the speculators would take account of that fact. They know the visible supplies. If the producers are not holding, the speculators tend to take over the supplies, since, as I say, account is taken of all visible supplies and future demands. The rate of flow of commodities, therefore, has no important influence upon price.

"In the event, of course, that perfectly enormous surpluses are held by centralized organizations,...."

I am not sure how Dr. Working would answer this point. I make a concession to the argument.

"....it may well be that rapid unloading would be a significant factor influencing the market price."

The question would be one of degree - how important these

huge holdings would be in relation to the capacity of speculators. It essentially hinges on that.

> "If it is true that the unloading of large stocks by centralized pools would have a significant effect on price, the most that could be argued would be that, while the current price was thereby more or less depressed, at any rate the reduction of these overhanging stocks would favorably influence future prices. Thus the unfavorable effect of such unloading would only show itself in the distribution of prices over a given period of time, and would not significantly affect the average price over the period in question."

Any benefits that would accrue to western producers in higher prices as a result of currency alignment would presuppose certain efficient and orderly marketing procedures. You pre-suppose efficient, orderly marketing procedures whether you engage in currency re-alignment or not. You cannot double count on the thing and say that if you do not have currency re-alignment you are likely to have a program of orderly marketing in order to improve the price situation, and that if you have currency alignment you are not likely to have such marketing. You must pre-suppose some orderly marketing conditions whether you have currency re-alignment or not. If it is suggested that the government will step in and guarantee prices and give the farmers a subsidy which they would not give them in the case of currency depreciation, that is a different matter. But it must be recognized that the subsidy is not something that is economically desirable for the economy, and if they could avoid a subsidy by a program of currency re-alignment they would at least accomplish a very important result.

> "From the long-run standpoint it is certainly not clear that there is any close relationship between the

"prevailing price and future plantings, especially in areas which are so highly specialized with respect to the products which can be grown, as is true of the prairie provinces. It is, of course, true that in unspecialized areas a shift in the structure of agricultural prices will tend to divert acreage to the relatively favorably-priced commodity, but it is not clear that a fall in agricultural prices as a whole results in any significant reduction in agricultural production. Throughout the world agricultural production has remained very nearly uniform despite the drastic fall of prices during the Great Depression. Indeed there seems to be some evidence that in the early part of the depression there was some slight increase in production, resulting apparently from the effort of the farmers to offset the fall in price. Increased output in as far as this was feasible was achieved by adding to the normal grain and animal products, supplementary lines, particularly poultry and dairy products. In any event, if it is argued that any improvement in the agricultural price situation inevitably results in such an enormous increase in output that the farmers are worse off than before, it would seem as though quite arbitrary influences control agricultural incomes with respect to which economic policy could have no possible effect.

"A recent bulletin by Professor Timoshenko makes a study of the effect of monetary policy upon agricultural prices in various countries, including Canada, Australia and the Argentine in particular. The data presented in this bulletin show quite clearly that the export prices did improve following currency re-alignment in various countries. While assertions are made

"from time to time by the author, in which he uses one or both of the two arguments against the efficacy of monetary policy to which I have just referred, I can find in his elaborate research no actual support for the thesis that a policy of currency re-alignment really lowered the price in the consuming and importing markets.

"It is of course true that sometimes an exporting country is also a major consumer in the world's market. If, further, the elasticity of demand for the product is high in the exporting country, it will follow that the improved domestic price would result in a considerable curtailment of the internal consumption. Thereby the supply available for foreign markets is necessarily increased. In this special case it could be shown that currency re-alignment would have an influence upon the price in the foreign market. In the case of Canada it is quite evident that, while she is a large producer, she is not an important consumer of these commodities. Consequently the argument referred to would have little validity in the case of Canada, or indeed in the case of Australia.

"5. With respect to a program of currency depreciation it is sometimes said: if it is economically desirable to depreciate a currency 30 or 40 per cent, why is it not desirable to depreciate it 80 or 90 or 95 per cent? It is, of course, not difficult to find the appropriate answer to this question. I know of no desirable monetary or indeed economic policy which can be carried to excess without disaster. The general criterion with respect to all economic policy is that of <u>balance</u>. The aim is to remove maladjustments. There is thus an optimum wage level and an optimum interest rate and

"there is also an optimum point beyond which it would clearly be undesirable to depreciate the foreign exchange value of one's currency. The appropriate goal is not a depreciation of currency for its own sake, but to achieve internal and international balance. Thus the appropriate policy can best be described as a policy of currency alignment.

"It is also sometimes said: if it is economically desirable for one country to depreciate its currency, why is it not desirable for all countries to depreciate their currencies, and if all countries do so, what benefit follows therefrom? This objection also is not difficult to answer. If indeed all countries depreciate their currencies by the same percentage against gold, this action achieves no currency re-alignment at all in terms of the foreign exchange rate structure. It thus follows that such equal, all-around depreciation against gold will not improve the international balance, since it will not rectify the foreign exchange rate structure in the manner needed to re-align an overvalued currency or an undervalued currency. But while the main aim of currency re-alignment could not be achieved by an all-around equal depreciation of currencies against gold, it would still be true that one possible benefit might result. In the event that there were a general scarcity of monetary gold reserves, and in the event that countries by reason of a strong tradition found it difficult to make such changes in their monetary institutions as would be necessary to alleviate such a shortage of monetary gold, an all-around depreciation of currencies against gold would automatically create new gold reserves and thereby furnish the basis for monetary expansion. Thus it

"would still be true that some possible benefit under certain conditions might follow from an all-around equal depreciation against gold of all currencies. I cite this latter point, not because it has any particular reference to the problem we are considering, but merely because some confusion has been created in public discussion with respect to this matter.

"The appropriate goal of currency re-alignment, namely to achieve an improved structure of foreign exchange rates such as would afford a higher degree of international equilibrium, indicates that, if certain currencies are under pressure, other currencies must be in an easy position. It is, of course, not true that all countries can at the same moment experience a pressure through the deterioration of their balance of payments. What happened indeed in the world depression was this: serious deterioration in the balance of payments and pressure on currencies was felt first in the countries producing primary products, which at the same time were usually debtor countries. As the depression deepened, one by one, these countries abandoned the gold standard and thereby found some relief in their international position. Next the pressure was exerted upon Germany and other central European countries who had been under the strain of a violent shift in capital movements. These countries had become debtor countries by reason of the Treaty of Versailles and had in the post-war period adjusted their international position to a large inflow of capital. Simultaneously pressure was exerted upon England by reason partly of the long-standing over-valuation of the pound relative to the franc and the American dollar and partly by reason of the decline in interest and

"dividend payments on foreign investments together with the fall in export incident to the deepening of the depression. England obtained relief by abandoning the gold standard, while Germany embarked upon a regimented control of her international relations through the institution of exchange control, import control board and clearing arrangements. The pressure then shifted to the remaining gold standard countries. As England found relief, France was placed under pressure. It is thus apparent that the process of currency re-alignment did not immediately achieve international balance but often created a new maladjustment in the opposite direction. While it is certainly clear that the difficulties thus created tended to curtail foreign trade and thereby had a ramifying influence on the entire world economy, it is equally true that, had the process of currency re-alignment not been so rigorously resisted in the remaining gold countries under pressure, we should have reached much sooner an improved balance and we should have gotten rid much earlier of the drag on expansion.

"6. The Canadian Rate of Exchange in Relation to Debt Service Abroad

"I have stressed the advantages from a policy of currency realignment resulting from the rise in the incomes of exporting groups and in the restoration of balance in the economy as a whole. Objection has been made, however, that even though it be granted that certain beneficial results would flow from such a policy, on the other side serious disadvantages would follow from the increase in cost of servicing the foreign-held debt and indeed also that portion of the

"domestic debt which was payable in terms of a foreign currency. It is to this problem I now wish to give some consideration.

"This problem has frequently been exaggerated by applying the increased cost of debt service to the entire sums paid annually by Canada to foreign investors. But this total sum includes not only payments on debt service but also the transfer of proceeds by subsidiary corporations to their foreign parent companies and other payments to foreigners on direct investments held in Canada. The total sum of all these payments clearly exaggerates the problem of increased cost of servicing foreign debt consequent upon currency re-alignment. Obviously the compulsorily increased burden is limited to the interest and amortization charges on foreign-held bonds and mortgages of Canadian governmental bodies and corporations. It applies not to the total volume of foreign investments but only to such investments as by their contractual terms call for fixed annual payments in foreign currency.

"In the period from September 1931 to April 1933 it is clear that a depreciation of the Canadian dollar to the sterling level or slightly below sterling, would mainly have affected the service on Canadian debt obligations held in the United States. It is therefore particularly important to consider the Canadian fixed-income securities held by Americans. The Bureau of Foreign and Domestic Commerce in the United States Department of Commerce, classifies the American investments in Canada and Newfoundland into direct investments and portfolio investments. It is the latter in particular with which we are here concerned, since the direct investments for the most part impose no obligation for the payment of

any fixed sums. The direct investments are based on book values and represent stocks, advances, royalty receipts and other book accounts which record the relationship financially of an American parent company with its foreign subsidiary. Payments on these direct investments are only in the very rare case fixed in character, as in the case of certain advances, so-called, which are included in this category. Thus estimates have been made that out of a total income of 380 million dollars in 1936 on total direct American investments in all foreign countries, less than 10 per cent, namely 35 million dollars, was paid in interest or preferred stock dividends. The two items are not segregated, but it is at any rate clear that interest charges constituted only a part of the $35,000,000 indicated. It is thus clear that direct investments can almost entirely be eliminated when one considers the burden of fixed obligations.

"Now the Bureau of Foreign and Domestic Commerce estimates that for 1936 American direct investments in Canada and Newfoundland amounted to $2,085,000,000, while the portfolio investments, representing mainly debt obligations of governments and private corporations, amounted to $1,647,000,000.

"The American income from direct investments in Canada amounted in 1934 to 90 million dollars, while the income from portfolio investments amounted to only 80 million dollars. In 1936 the direct investments yielded only 70 million dollars. It is the portfolio investment income of 70 or 80 million dollars with which we are concerned when we speak of the increased cost of debt service incident to currency alignment.

"Had the Canadian dollar been depreciated from

"September 1931 to April 1933 to a level 10 per cent below the British pound, this would have involved approximately a 35 per cent depreciation against the American dollar during the year 1932 and the first three months of 1933. Now a 35 per cent depreciation against the American dollar amounts to approximately a 55 per cent increase in the interest burden on American-held Canadian securities. The annual interest charge, as we have noted, was about 80 million dollars. The increased interest burden to Americans would therefore have been about 44 million dollars a year during the period of heaviest depreciation against the American dollar. In addition to the increased burden to Americans, account must also be taken of the burden resulting from that part of the Canadian debt obligations held in Great Britain. We have noted that British investments in Canada are approximately 2/3 of the volume of American investments. Something, therefore, must be added to the increased debt burden to America in order to get the total effect of depreciation upon the foreign debt burden. But the net addition on account of England is not great, since a 10 per cent depreciation involves only about an 11 per cent increase in the debt burden. We may estimate the increased burden from this source at about $6,000,000. In addition account must also be taken of compulsory amortization charges, which, if we may judge by the data for 1936, amounted to about $13,000,000. A 35 per cent depreciation would raise this burden by about $7,000,000. Altogether these items would total something less than 60 million dollars annually in the period of the greatest depreciation, the period in which the Canadian dollar, under the assumptions here indicated, would have been depreciated most

"heavily against the American dollar. After April 1933, on the assumption that the Canadian dollar were held to a 10 per cent depreciation below the British pound, the annual burden on the American-held obligations would fall to one-fifth of the level for 1932 and would therefore become relatively unimportant."

COMMISSIONER MacKAY: Before you go further, Dr. Hansen, should not this sentence be amended to read, "the increased debt burden would have amounted", and so on?

DR. HANSEN: Yes, thank you. That is right.

"Even in the worst period, from December 1931 to March 1933, the increased debt burden would have amounted to only approximately 1.5 per cent of the national income. One has every reason to believe that the policy of currency re-alignment would have prevented a large part of the terrific fall in national income from 5.4 billion dollars in 1930 to 3.2 billion dollars in 1933. Against the background of these figures it is clear that the offsetting disadvantage of an increased debt burden incident to currency re-alignment would have been relatively inconsequential.

"We can also approach the magnitude of the problem in terms of data presented by Canadian authorities in the Canada Year Book for 1937. The amount of capital invested in Canada, including "bonded indebtedness of Dominion, Provincial and Municipal Governments, investments in railways, all manufacturing concerns, mines and metal industries, public utilities, trading establishments, finance, insurance, land and mortgages", is placed at $18,000,000,000. Of this sum 62½ per cent, or $11,200,000,000, it is estimated, is owned in Canada; 22 per cent, or $4,000,000,000, in the United States; and 15 per cent, or $2,800,000,000, in the United

"Kingdom. The figure representing the amount owned in the United States, corresponds quite closely with the American investments in Canada as estimated by the American authorities. American investments in Canada may be classified from these data into four main divisions: first, all government securities, amounting to $1,087,000,000; second, railroads and public utilities, amounting to $1,298,000,000; third, industrials, amounting to $1,191,000,000; and finally,miscellaneous, including merchandise, insurance, finance, etc., amounting to $414,000,000. The combined total of nearly $4,000,000,000 includes both direct and portfolio investments. Of the $1,647,000,000 of portfolio investments it appears therefore that slightly over a billion of debt obligations are governmental, leaving some $600,000,000 obligations of private corporations. It is these debt obligations of which we must take account when we try to assess the increased burden of foreign debt service incident to currency re-alignment. The burden is far smaller than is indicated when we take account of the entire sum paid annually abroad. In short, the increased charge is not to be calculated on the basis of, say, $220,000,000 as has sometimes been alleged, but rather on the basis of some 70 or 80 million dollars -- the amount of service on capital represented by portfolio investments.

"Account must also be taken of the character of the industries which owe debts abroad. In Canada they are very largely exporting industries, the very industries which benefit, in terms of the value of their exports, from currency re-alignment.

"The American investments in Canada of an <u>industrial</u> nature, amounting to $1,191,000,000, are divided into

"the following industry classifications:

Industry	Amount in millions of dollars
Wood and wood products	360
Mining	220
Metal industries	334
All other industries	273
	1,191

"It is thus evident that American investments are heavily in two of the three great export industries of Canada, wood and wood products and mining -- industries that would have profited greatly by a lower value of the Canadian dollar in terms of the American dollar.

"A further point. It is, of course, true that Canadian bonds owned in Canada call in many cases for the payment of principal and interest in American currency (or sterling) at the option of the holder. Thus it has been asserted that, manageable as the service on account of interest and sinking fund might have been, maturity payments due Canadians and payable in American or sterling currency would have been quite unmanageable.

"Now it is to be noted that the gold clause in such contracts was abrogated, while the currency clauses were honoured. The abrogation of the gold clauses had the effect of denying the windfall profit which would otherwise have fallen to creditors, quite without reason or justice, in consequence of the changed dollar price of gold. Had the gold clauses not been abrogated, the burden of debt to U. S. investors in terms of the new American price of gold would have been increased about 70 per cent. Without such abrogation, debt obligations would have been payable in one currency, while income would have been received in another -- a

"situation manifestly quite intolerable from an economic standpoint. The abrogations of the gold clauses both in Canada and in the United States prevented the emergence of windfall profits accruing to creditors from this source. But the payment to Canadian holders in American currency, when the Canadian dollar was depreciated against the American dollar, represented a windfall profit of a type precisely akin to that denied by the abrogation of gold payments. The same reasoning that prevailed against payment in gold to investors anywhere should in equity similarly have ruled against U. S. currency payments to Canadians. A means that suggests itself to this end is the certificate of residence of the bona fide owner."

Here, let me refer to one of the British forms with reference to claims to exemption from income tax. It indicates their handling of a somewhat similar problem. I will read some parts of it:

"Declaration to be made by an authorised Banker outside the United Kingdom of Great Britain and Northern Ireland claiming exemption from United Kingdom Income Tax on behalf of an owner in respect of Foreign or Colonial Bonds, Share Warrants, or other Securities payable to Bearer, on the ground that the Owner is not resident in the United Kingdom.

"I/We(a).....of the Firm of .....
carrying on business at.....
do hereby solemnly declare

(1) that the schedule at the back hereof contains the full names and residential addresses of the persons who are respectively the absolute owners (b) of the bonds, share warrants, or other securities from

"which the coupons specified in the schedule are derived,

(2) that the respective persons named are beneficially entitled to the interest or dividends represented by the said coupons,

(3) that the said securities have not been acquired by the said persons by virtue of any contract, or option, or arrangement of any kind, under which they agreed, or might be required, to sell back or re-transfer the said securities, or to sell or transfer similar securities,

(4) that the schedule contains a true account of the said coupons, amounting to £..... say (c)..... .....due on the dates specified therein,"

This is important.

"(5) that the said securities have been in the beneficial ownership of the said persons

(d) (i) continuously since the last due date of the interest or dividends,

(d) (ii) since the respective dates specified on the back hereof."

Those are the clauses that apply particularly. There are some other forms that apply to different individuals but in general the form is the same.

"The arbitrary nature of the windfall profit accruing to Canadian investors demanding payment in U.S. funds suggests that this clause should have been treated in precisely the same manner as the gold clauses. Such action would have protected debtor governments and corporations from an excessive and inequitable burden.

"Finally, the objection to currency re-alignment here under consideration completely overlooks the important fact that continued deflation under the monetary policy

"pursued had the effect of enormously increasing the burden of debt of all primary producers.

That is to say, when attention is directed to the increased burden of servicing debt abroad we are likely to forget the increased debt burden internally which actually did develop from the policy of deflation.

"Thus the national income fell from 6.4 billion dollars in 1929 to 4.2 billion dollars in 1931 and finally to 3.2 billion dollars in 1933. It is by no means unreasonable to assume that under a policy of currency alignment this deflationary process could have been checked half way."

I lay no special stress on the "half way".

"Some considerable increase in the annual interest burden abroad would be a relatively inconsequential matter when reviewed in terms of the alternative policy of deflation and its impact upon the national income as a whole. Those who lay great stress on the increased debt burden incident to currency re-alignment overlook altogether the terrific increase in the weight of the domestic debt burden resulting from the deflationary process which reduced seriously the income of all producing groups. The alternative to the program of currency alignment was deflation and the wide-spread bankruptcy resulting therefrom -- a development which proved so serious that the whole economic structure was brought to the verge of a breakdown.

"Finally, I should like to make it clear that there is no thought of presenting in behalf of the Western Provinces a bill for damages to the Dominion for monetary losses in consequence of federal monetary policy. Monetary policy is presented only as one of many factors which account for the economic stress to which

the western provinces have been subjected, and which therefore serves to explain in part why these provinces now stand in need of a readjustment of their fiscal relations to the Dominion."

EXAMINATION BY MR. ST. LAURENT:

Q. There are a few points on which I should like to have some additional light for the benefit of laymen. I understand, Dr. Hansen, that what you have given us is a study made in the light of the experience of the last decade, indicating what might have happened had certain policies been pursued. A. Yes.

Q. And it takes into account certain facts which occurred in that decade and which could hardly have been perceived before they occurred - for instance, the abandonment of the gold standard by England. A. That is right.

Q. And the diminution of the gold content in the United States dollar - something that could hardly have been foreseen before it actually occurred. Then, was there not also during that period quite a widely prevailing view that the depression would not be as severe nor as protracted as it actually proved to be? Were there not many periods when a good many people felt that prosperity was "just around the corner"? Again, there was the prolonged drought on the wheat-growing farms of the American continent. These were things which very seriously affected the problem which one must study at the present time - factors of which no account could have been taken in advance. A. May I discuss those points now before I forget them.

Q. Certainly. I merely mentioned them in order to have them on the record. A. With respect to the first point, you will remember that in my introductory remarks I made a statement that bore out what you have said. I stressed the point that I should not wish at all to be in the

position of criticizing the action of the monetary authorities in Canada. I stressed the point that we were all of us very much in a fog about what was going on and that economists must be humble especially in appraising what had been done by the monetary authorities. I said that we were reviewing the whole matter mainly for the purpose of learning what we could with respect to future policies from what had actually taken place in the past decade. From that standpoint examination should be valuable. I said, further, that we were examining the situation with a view to ascertaining what in fact was the impact upon the western provinces of what had occurred, without any thought of laying blame upon anybody. I agree fully, therefore, with the implications of the first point which you have made.

With respect to the second point, I do not so fully agree with the implication which your question would suggest, though there again it is easier for one to be wise afterwards. Presumably, however, past experience ought to make us, I should say, a little quicker on the trigger in the future than we have been in the last decade. The last decade, I think, shows that it is extremely dangerous at every moment to be taking an optimistic view of the future. Usually pessimism is more nearly correct; human experience shows that. In the past we have sinned rather too much in the direction of assuming that the safe policy was to do nothing, whereas, in my opinion, the experience of the last decade shows conclusively that very often that is a dangerous policy to pursue. I took the view, therefore, that in the future we ought to be less optimistic about prosperity being just around the corner, and that we should take time by the forelock. I have forgotten your third point.

Q. The third point is the effect on the economy of the prolonged drought in the wheat-growing areas.

A. Yes. It certainly is true that the whole problem of the income of the western provinces is mixed up with a great many things of which monetary policy is only one. The drought, and the terrific readjustment in the whole world economy, under which so many formerly large food importing countries are now becoming more and more nationally self-sufficient, owing to a large extent to the fear of war; the drastic shift in the international division of labour following the war, and arising in part from fears of the future -- all these factors have a profound influence, and you cannot cure the evil by monetary policy alone. There are many of these conditions that cannot be remedied by monetary policy.

Q. I hope you will not take my questions as challenges or as taking issue with you. I simply wanted to have these points cleared up. You will note on page 2 of the brief reference to the fact that there had developed a set of more or less universally accepted canons in support of the view that any wilful alteration of the foreign exchange value of the currency was an act of international immorality?
A. Yes.

Q. That view did prevail to a considerable extent?
A. Yes, I agree.

Q. And no doubt it had a marked effect upon the conduct of those who had to take responsibility for monetary policy.
A. I fully agree.

Q. And it is only after the experience of what did occur that there has been some movement towards another conception of international morality in that regard?
A. Yes.

Q. The brief deals with the re-alignment of currencies. Was that brought about by trade conditions, or was it contributed to, to a certain extent, by the abandonment of the

gold standard by some jurisdictions before others did the same thing? A. Very markedly, yes.

Q. It was markedly contributed to by the abandonment of the gold standard by some jurisdictions before others abandoned it? A. Yes. The situation has actually developed in such a way that, in my opinion, the spread of currency depreciation created almost at every step a certain degree of new maladjustments, and it has taken us longer to get through the process and reach a balance. It has taken us longer by reason of the fact that most countries over-did the process.

Q. So that had adherence to the gold standard all round been possible there might have been less apparent maladjustment than actually developed? A. With that I cannot agree. I am afraid that the maladjustments in the post-war period were so serious that a very considerable readjustment of currency was necessary. In the first place, some errors were made when the various countries returned to the gold standard in the 1920's. England made a serious error in returning to the old parity; France undervalued her currency when she returned to the gold standard; and these wrong parities were important causes of world breakdown.

Page 10478 follows

Q. In the case of England's returning to gold parity I suppose the idea of the international morality prevailing then was some contributing factor? A. Yes, I think it was. I feel strongly it was a mistaken view, and I feel if you look back into the discussion of the period it was quite clearly seen by the economists especially that it was a mistake to lay weight upon a formal concept of financial morality, which really violated a genuine concept of financial morality. There was a backward lagging view, and a more progressive view with respect to that matter.

Q. A lagging view would have a public opinion with it? A. I think that is right.

Q. And so had to be taken into account? A. Certainly, I think so.

Q. On page five you note the abandonment of the gold standard in several countries. I take it from the language used there that that could not be classified as a useful alteration of currency values? A. You remember I said, Mr. St. Laurent, that it is extraordinarily difficult to appraise what is deliberate currency re-alignment. It all goes back to the policy which a country feels it must pursue with respect to how much deflation it can endure. Once it has decided that question the rest is inevitable.

Q. Is not that the idea that has prevailed, that until you are absolutely forced to it you were speculating with international morality in depreciating your currency exchange values? A. You have to, I believe, go back a long way before you can let a country off scott free in its policy from the standpoint of the old concept. It may over several years have been pursuing policies which has got it into the

situation where what finally happened was inevitable. Consequently you cannot appraise the policy of a country a month before the thing occurred. There may have been a long period in which it could have made an adjustment and prevented the thing. It seems to me that conceivably that could be said about England from the period of 1925 to 1931. If England had had the will to carry through their ideas of international financial morality they could have made the adjustment in that six year period; so you have to go back prior to the few months before the thing happened if you are really going to appraise the thing from the standard of the old concept.

Q. Would you suggest, sir, it was not mature and a deliberate depreciation? A. I think not. I mentioned the fact that such institutional forces as powerful trade unions are a very important factor in the amount of deflation a country can stand, and you will find regularly (a rather interesting thing, I think) that all those countries that had weak trade unions, labour unions, were able to carry through a longer process of deflation than those that had not.

Q. There is in strongly organized labour a deterrent to continued deflation. A. That is quite right.

BY COMMISSIONER ANGUS:

Q. Was there not also in England, perhaps, the expectation, an erroneous expectation, of a rise in prices in the United States? A. Yes.

Q. So that there was a feeling perhaps if they held on without deflating the adjustment would occur? A. Yes. I think we had a very curious situation in the 1920's with respect to the American position. Externally we may say, I believe, in this period the dollar was undervalued. We may say that the prices were too low in America in relation to the international situation. Internally it seems to be true that prices ought to have been lower in relation to

our costs. We had a rapid increase in efficiency and the price level on our industrial products remained substantially stable. There was some decline. It is frequently said there was no decline. That is really not correct. But there was no great increase in wage rates from 1923 to 1929, relatively little. At the same time there was a rapid increase in efficiency, so that prices were internally relatively high compared with our costs. Yet externally our prices were relatively low compared with the international situation. It seems what we should have had was a rise in our costs in order to bring about both a better internal adjustment and external adjustment. If we had had a greater rise in wage rates it seems to me -- it is a controversial point -- we would then have had both a better internal and international equilibrium. That very peculiar position in the United States has an important bearing upon the British situation. I may say their anticipations were that the large inflow of gold -- relying on the old principle of the effect of the automatic flows of gold upon credit structure and prices -- should have created a rise in prices in America. It did not develop. If we had had that it would have eased the situation for them. I think you are quite right.

BY COMMISSIONER DAFOE:

Q. There is one phase of this question that I believe would be interesting for you to discuss and that is the impact upon international relations, on what might be called nationalistic policies for the balancing of international economy. This is really an important aspect, and I do not believe you have touched upon it. I remember when the Exchange Equalization Account was opened in England it was very vigorously stated that it was just going to take care of minor fluctuations, bulges and so forth. It was not intended to employ it to prevent what you might call the

operation of market pressures. I inferred from your statement that you attribute to it a very much more important function than that. A. Yes, sir.

Q. For instance, you say here that at the time when the British pound showed a disposition to appreciate the British Treasurer got an additional 200 million pounds, having had earlier almost an equal amount, and this enabled it to enter a vigorous fight to prevent the development of an unduly high value of the pound. That is, unduly high value of the pound from the standpoint of the internal interests of England. A. That is right.

Q. Well, then, when a similar fund was created in the United States you know there was a good deal of controversy as to whether there was a battle between the two funds or not, Then France made a fund available. Finally the three countries had to come to some sort of international agreement that these funds would not mutually destroy the purpose of one another. Does that suggest that if we are not going to get back to some kind of international standard there is always the possibility of international friction arising from the policies which England, United States and France, and in a lesser degree Canada are pursuing. I should be very pleased if you would talk about that for a moment or two.

A. I think you are quite right. We are faced here, I believe, with a serious problem. But always we are faced with difficult alternatives. That is very unfortunate in our economic life. We very rarely have a choice of a policy which is quite 100 per cent easy, sure fire, and fool proof in its operation. I believe we have come to a period in world economic development where the other alternative, namely the return to the automatic gold standard, would be unfortunate. We have reached a point where we are facing the problem of international collaboration in these matters.

Indeed, I believe that it ought to be clear that we

need very much international collaboration not only on monetary matters (we need that obviously very definitely if we are going to have flexible monetary policies) but also on tariff policies.

In the past countries have felt quite free to do anything they wanted with their tariffs without consulting other countries at all, and that is just as bad as manipulating their currency for their own selfish ends. If we are going to make the international system work we must have international collaberation both on monetary policies and on tariff policies. Of course, the method of trade agreements which has had an important revival in the last five or six years both on the part of the British policy and American and Canadian policy looks in the direction of international collaberation on tariff matters; and I believe that both the tri-partite agreements and the separate trade agreements are very encouraging signs among the democratic countries. We have not had much success in including the totalitarian states in these arrangements. That is an extremely important matter, but I would much rather, under present international conditions, take a chance on the alternative of international collaberation though I would not expect 100 per cent success.

It is a matter of judgment. I realize there are many competent people whose opinions I respect very highly who would not agree with me on that point.

With respect to the smaller countries. I believe the question is somewhat different. Here I know also there is disagreement. Many people take the position that the smaller countries are entitled to have more freedom in their national policy than the great countries.

I might refer to a paper given by Dr. John H.Williams of Harvard, who is also vice president of the Federal Reserve

Bank of New York, in which he discusses the whole matter to which you refer, and with respect to this point he says that while it is highly important that the great countries shall, even in their own interests be very careful in any currency adjustment, not to go beyond a true international equilibrium, smaller countries might be allowed greater freedom. Let me repeat there is disagreement on this point; but I want to read particularly a section in which Dr. Williams refers to smaller countries. This is what he says:

> "On the other hand, countries chiefly dependent upon foreign trade and foreign capital have most to gain and to lose by exchange variation; they most need exchange stability when foreign trade is prosperous, and they most need a currency adjustment when capital inflow is threatening to produce a boom, or when depression in the outside world is threatening their foreign markets. From this point of view, countries like the United States, and probably France, could best afford to have an unchanging currency, once a generally sustainable structure of exchange rates had been attained."

But, you see, he supports the policy of international collaberation in the adjustment of exchange rates. I continue with the quotation:

> "Countries like Australia or Argentina --"

And he could have added Canada -- "would probably want fixed exchanges the larger part of the time, but with some provision for both depreciation and appreciation. Currency appreciation would be indeed a new phenomenon in the history of young countries, which like most others have been less concerned to stop booms than to stop depressions; --"

The one country that is talking a great deal about using currency appreciation to stop the boom is Sweden. To

continue the quotation:

" --- but currency depreciation in depression would be only repeating what they have always done. The only new suggestion is that it might be worked out in some more orderly and deliberate fashion, as a conscious instrument of policy. For such countries, internal money management must be at best the minor part of policy. Since these countries are a minor part of the world economy, currency variations by them would probably not hurt others so much as it might help them.

BY MR. ST. LAURENT:

Q. Dr. Hansen, I note that this study is predicated to a certain extent, on the possibility of a rising national income being brought about by currency realignment. On page seven there is a statement that the realignment in the foreign exchange value of the monetary unit may have a very profound effect on the national income. Then on page eight you say that the standards by which they may be determined afterwards are for the mature countries in the expansion of monetary investment, and for countries producing primary products, exporting countries, an increase in the value of exports. This indicates, I suppose, the extent to which the national income has probably been raised by the currency alignment? A. Yes.

Q. With respect to the Canadian situation on pages 20, 37 and 39 there was the suggestion that it might have been hoped that one half of the decline in the international income could have been prevented by the currency realignment suggested, 10 per cent below sterling? A. Yes.

Q. Did I understand you to say that there was no evidence upon which you could fix that? A. Yes, sir.

Q. No evidence even that would enable you to state any proportion by which the decline could have been prevented? A. Yes; I agree with that.

Q. There is no evidence; it is a matter of --
A. It is a matter of judgment.

Q. And even now with the information derived from the experience of the last ten years it is still impossible to find evidence that would justify any specific figure?
A. Let me add one point there, however. As one examines the different economies it is pretty universally a fact that the deflation stopped at the point of abandonment of the gold standard. For some considerable time the economy often ran along for quite a while at that level. But the deflation stopped pretty generally at the point that currency realignment occurred. That, I should say, is really a very important basis upon which to form a judgment on this point. Let me repeat I lay no weight on any specific figure; it is suggested more or less to stimulate concrete discussion. Whether it is correct or not depends a good deal, I should say, upon the precise time when the currency realignment had taken place in Canada.

BY COMMISSIONER ANGUS: What is critical in point of time, the abandonment of the gold standard or the fixing of some sort of new level, even a temporary level? A. I am sorry, I do not understand that.

Q. I understood you to say it was important. After a country went off the gold standard deflation stopped.
A. Yes.

Q. Is the essence of the matter the going off the gold standard or is it going off the gold standard and fixing some new currency relationship such as ten per cent off sterling or twenty per cent off. A. Well, usually for some period after the abandonment of gold there is a transition period when there is some considerable movement in the

exchange rate and then some degree of stability is achieved. Now, I believe very definitely that the most beneficial results come after you have reached again some degree of new exchange stability and reasonable confidence that it will in future prevail.

Q. I asked the question because, for a considerable period Canadian currency was at a discount. A. Yes.

BY MR. ST. LAURENT:

Q. Now, to enlighten me as a layman, will you answer this? There is a statement on page ten as follows:

"Armed with large gold holdings the bank of England engaged in open market purchases and thereby raised the cash holdings of the commercial banks."

That would be purchases of foreign exchange. A. Purchases of government bonds.

Q. Purchases of bonds already issued and already held other investors in England? A. That is right.

Q. On page 11 in the last paragraph you say: "In 1929 and in 1930 an effort was made to maintain the old parity partly by using, almost to the point of exhaustion, gold and foreign exchange reserves, and partly by increasing the tariff." So that apparently, therefore, there was a serious effort made during that time by using every effort to defend the exchange currency values. A. I agree.

Q. And probably also because of their respect for the traditional notion of international morality? A. Yes, sir.

Q. Now, there is a reference on page 19 to the borrowing on the New York market of $100 millions by the Canadian government in 1930. It is, of course, well known that at that time not only the Dominion government was borrowing but other governments and even the corporations were borrowing.
A. Yes, sir.

Q. I suppose it is true that this borrowing by the Canadian government did have some effect on the national

income of that year. The proceeds were probably expended for services and commodities and got into general circulatio A. Well sir, I should say that the borrowing could probably have been done in the internal market.

Q. Yes, but whether done at one place or another it did have some effect on the national income of the yeqr. A. If this action were responsible for the maintenance of the foreign exchange value of the Canadian dollar and in so far as this contributed to deflation the indirect effects might have had a rather disastrous effect upon the national income.

Q. It was just in connection with that that I was going to ask you if you did not think that in view of the fact there were a large number of borrowings, had this Canadian government loan been placed on the internal market it would not have absorbed funds that possibly went to other borrowers and would have driven them to a certain extent to the foreign market. A. I think it is quite probable that if Canada at that time had chosen an internal policy designed to stop the deflation she would have had added in addition to the cessation of Dominion borrowing abroad, a program of internal expansion. I believe that that would inevitably have produced a fall in the Canadian dollar. Let me repeat that no country wants to depreciate its currency for the sake of depreciation. It does so in order to stop deflation, and then depreciation follows as a result of choosing the policy of stopping deflation. Had Canada engaged in a policy of internal expansion and if this expansion had taken place soon enough, such expansion itself might have prevented the shift of new issues, to which you refer,

to the foreign market.

Q. It might have provided funds for Canada that would have satisfied the other borrowers? A. That is right.

Q. On page twenty-five it is suggested the mechanism for effecting the currency realignment might have taken the form of deposits of Dominion notes with the Canadian Banks or the sale of Dominion obligations to Canadian banks in exchange for bank deposits. Either course, would, of course, necessitate legislation by the Canadian parliament, and to that extent publish the intention and pplicy. A. I am not really prepared to answer that question, Mr. St. Laurent, I do not know enough about the legal situation in Canada to answer that. I might, say, however, in the United States there was recently a comparable question. Recently the United States undertook a policy of gold sterilization. They sold short-term treasury obligations to the banks in order to sterilize that gold. Nobody knows whether they had the constituional power to do so. Nobody has questioned it, as a matter of fact.

Q. You probably had an incomparable administration in office. A. I think, at least, it is an interesting analogy.

Q. But, if we assume legislation would have been required in accordance with Canadian constitutional practice, that would have involved notice to the world of what was going on and what was intended. A. We know that in England from time to time, the Bank of England has overstepped its legal powers and subsequently / such action has been ratified by parliament.

I should imagine something of that sort / would be possible here, but I really do not know.

Q. Now, sir, you said that the price of imported raw

materials would probably have taken the full impact of the appreciation. A. I think so

Q. And there is a statement that in Canada the raw materials imported are few. Perhaps they are few in number but they loom very large in value when compared with the total Canadian imports. A. That is right. I qualified the statement when I read it.

Q. I noticed it seemed to be a little sweeping. You probably qualified it. A. Yes. There are perhaps not a large number.

Q. Not a large number, but they loom large in the amount of Canadian imports. A. I agree.

Q. And the Canada year book shows many of them, the largest being crude petroleum, coal, steel and automobile parts, which, I assume can be treated on the same basis. A. I think so.

Q. They would have taken the full impact? A. I am not quite sure about automobile parts. It is a rather different analysis. I am not quite sure about that.

Q. There is sugar and sugar products. A. Yes; they would have, I think, definitely.

Q. Raw cotton? A. Yes.

Q. And raw wool? A. It definitely, I think, would have responded fully.

Q. So that it is even difficult at this time to make a mathematical calculation of what the result would have been or what benefit there might have been in addition to the dollar increase on the agricultural products actually exported. A. Yes, except that I do think that the general experience in all periods of revival is quite convincing on that point. Raw material prices rise sharply in the advance; but the finished product lags far behind owing to the relation of fixed charges to variable costs. I believe that we have a vast amount of

experience on that point, and we can make quite a definite judgment about it.

Q. It does involve the other feature, that realignment of the currency would have lifted the national income.

A. I do not quite follow you, I am sorry.

Q. This increase in output does involve the assumption --

A. Yes, that is correct.

Q. -- that the affect of the realignment of currency --

A. Yes, I think we have a right to expect that.

Q. -- would be to lift the national income. A. Yes, that is right.

Q. You discuss on page 33 the objection of having all countries at the same time depreciated to the same extent with respect to gold, that it would not mean any realignment.

A. Yes, that is right.

Q. Is there not also another possibility of countries getting into competition in the depreciation field.

A. Yes.

Q. Is not that something that could bring about some of these maladjustments to prevent actual realignment?

A. I think it has been feared more than is really justified. I think we have really witnessed much more competitive deflation in the last ten years than any competitive depreciation, I do say, however, that the process of currency realignment has, in point of fact, quite regularly gone too far in country after country. It has not been the simple process of readjustment that we might have hoped for. Nevertheless I should say that on balance we ought to have feared competitive deflation, as events have actually transpired more than competitive depreciation.

Q Q. But the competitive depreciation would bring about the same maladjustment would it not? A. That is right.

Q. If it took place. A. That is right

Q. Now, sir, you also likened the clause in the two

or three way bonds to the gold clause. As a matter of fact, the gold clause was abrogated in quite a general way. A. Yes I Q. In more countries than one. A. Yes.

Q. Hence this situation of the two or three way bond would have been something peculiar to Canadian economy. A. Yes, but of the same general species.

Q. But still not something for which there was any precedent established by anyone else. A. Well, the clause is so closely analagous to the gold clauses that I should say the precedent really had been established.

Q. And the precedent you rely upon is the abrogation of the gold clause? A. Yes.

Q. And that occurred quite late in the period. A. Well, not in the United States., The legislation came very quickly in the United States, it came later in Canada.

Q. Very quickly after the change in the gold content of the American dollar. A. Yes.

Q. In 1933, was it not? A. The actual change in the gold content was in 1934. The fixation of the gold content came in January 1934. Whether this other legislation came in the same bill I do not at the moment remember. I believe it probably did.

Q. It came relatively shortly after the fixation of the gold content? A. Yes.

Q. But, of course that was something which was a 1934 occurrence, and could not in 1930 or 1931 have been foreseen? A. No. But I believe one could have planned for something of that sort.

Q. Wellm there were a great many who did not plan for naything of that sort were there not? A. Yes, I think so.

BY COMMISSIONER MACKAY:

Q. There is one question I want to ask. I suppose the fundamental of a currency is public confidence in it.

The question that worries me is this: What expectation can you have of confidence in your currency, particularly in relation to other currencies, if it is generally accepted that the government is prepared to depreciate in the event of a serious recession. I am thinking of the long term. What is the long term affect, and particularly, what would be the long term affect upon bonds invested in government borrowings?

(Page 10,498 follows)

DR. HANSEN: I see no serious problem there. In the case of internal bonds, the bondholder is interested in the stable purchasing power of his money, and a flexible monetary policy ought to achieve a more stable internal purchasing power of his money so that his confidence as an investor ought definitely to increase. So far as the foreign investor is concerned, it could run in terms of foreign currency, but there you run the risk of a somewhat increased burden in the servicing of the foreign debt; but at all events the foreign investor would not be deterred from making an investment if the bond runs in his own currency. So I see no serious problem there. South American countries have time and again in the past depreciated their currencies, and it seems to have had very little effect upon investment in those countries.

COMMISSIONER MacKAY: But they have paid high interest rates.

DR. HANSEN: High interest rates relate to a great many matters aside from this particular question. The investor runs no risk. He is much safer because under this policy default is much less likely, and so he ought to have greater confidence in investing in that bond.

COMMISSIONER ANGUS: It would be much better perhaps to put a gold clause in the bond than a three-way currency clause. Would we have been much better advised to have done that?

DR. HANSEN: I am not so sure. I think you did both frequently.

COMMISSIONER ANGUS: Yes, but the gold clause would have been much easier to deal with after the event, would it not?

DR. HANSEN: You mean that that clause is easier to deal with than the currency clause?

COMMISSIONER ANGUS: Yes.

DR. HANSEN: I think probably it is. Administration is more difficult with the currency clause than with the other. I should imagine that neither type of clause is liable to recur in the future.

COMMISSIONER ANGUS: Do you think it would be sound if there was a rule limiting governments and corporations in Canada, for instance, to obligations in lawful money of Canada? I mean, forbidding gold or foreign currency obligations without special sanction or authorization.

DR. HANSEN: Yes, the situation in the United States is now such that private gold contracts have been declared by the Supreme Court to be null and void, and consequently they would be meaningless if attempted in the future. The court held that Congress alone has the power to determine what is legal tender, and if a private individual attempts to contravene that power his action is null and void in the public interest.

MR. ST. LAURENT: We wish to file a copy of this statement of yours, Dr. Hansen, as Exhibit No. 423.

EXHIBIT NO. 423, Submission on Canadian Monetary Policy by Dr. Alvin H. Hansen, Professor of Political Economy, Harvard University, upon behalf of the Manitoba Government.

THE CHAIRMAN: We want to thank you, Dr. Hansen, for your very learned and very able submission, also for your full and frank presentation. We will give it most careful study. I confess it will be much harder for me than for my colleagues because in economic questions I am only a layman, and a very poor one at that.

DR. HANSEN: Thank you very much, Mr. Chairman.

HON. MR. BRACKEN: Would it be in order for me, Mr. Chairman, to ask Dr. Hansen one or two questions before he leaves?

THE CHAIRMAN: Certainly.

HON. MR. BRACKEN: At the beginning of his examination Mr. St. Laurent asked Dr. Hansen a question which to me meant this: Are not monetary authorities wiser now as to the effect of the monetary policies that have been followed in Canada than they were, say, eight years ago? And Dr. Hansen said very frankly that they are wiser now, that there is less fog now than there was before. The question I want to ask Dr. Hansen is this: Does the fact that these authorities are wiser now than they were eight years ago in any way lessen the adverse effect of those monetary policies upon western Canada?

DR. HANSEN: I think I should have to answer no.

HON. MR. BRACKEN: Dr. Hansen has also very frankly pointed out what is the view of the government of Manitoba, namely that in presenting his submission and argument there is no desire to criticise anybody having to do with monetary policy in Canada in the past. What we are concerned with is the effect of those policies, and what we want now is to draw the lesson from the experience of those years. In that connection I should like to ask Dr. Hansen this question: Those lessons will be of no value to us unless we learn to apply them if a situation of the same kind occurs in the future?

Dr. Hansen also had something to say about the depreciation of the British pound that is going on at the present time, and that leads me to ask this question: Is there a possibility or a probability that something approaching the kind of thing we had seven or eight years ago may occur again unless we profit by that experience of the past? Do you get my point, Dr. Hansen?

DR. HANSEN: Yes, and I am quite willing to answer the question because I have strong opinions about it.

I do think that the current depreciation of the British pound against the Canadian dollar and against the American

dollar will prove a serious handicap to Canadian agriculture and American agriculture if it progresses very far. I further think that this depreciation is due essentially to a transfer of short-term obligations from London and not to any fundamental maladjustments in the current exchange rate structure. If we consider the United States, for example, it seems to me that the cost structure in the United States is extraordinarily high at the present time. We have had two very sharp increases in wage rates -- one in 1933 and one in 1936 and the early part of 1937; and during recent years there has been a very great decrease in the hours of labour. I think that the cost structure in the United States is definitely one of the deterrents to full recovery in the United States;

and if that is the case it seems to me that it is extremely difficult to make out a case for a currently undervalued dollar. England having had in 1936 and 1937, I think one might say, full recovery, and the United States having had a very lagging recovery, owing in part to this high cost structure, I am not able to see any fundamental grounds for the current depreciation of sterling. I regard it as having to do largely with the political situation in Europe. There is a movement of capital, which is just the sort of thing that the tripartite agreement ought to operate to offset, and it should not permit any drastic change in the now long established structure of exchange rates. If the British pound continues to fall it is bound to have a serious effect both upon Canadian agriculture and American agriculture; and under those circumstances I would say that it ought to be the policy of both countries to act by negotaation and otherwise to prevent any serious decline of the British pound against these currencies.

I would say further, since you have asked my advice, that it probably ought to be the Canadian policy to operate

in that direction, regardless of what American policy might do.

Might I add one further word? I am afraid I have been a little too bold in what I have just said because certainly this is the kind of question that ought to be given very serious study by the proper authorities and be very carefully considered. I have perhaps been a little too ready to give an offhand judgment because this question does deserve very serious study by the proper authorities.

THE CHAIRMAN: Well, you did it under very strong provocation. We will now adjourn.

The Commission adjourned at 4.45 p.m. until 10.30 a.m., Wednesday, November 30, 1938.

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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

OTTAWA, NOVEMBER 30, 1938

REPORT OF PROCEEDINGS

Vol. 10, pt. 2.

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OTTAWA, ONTARIO, NOVEMBER 30, 1938

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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

OTTAWA, ONTARIO, NOVEMBER 30, 1938.

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years met at the Parliament Buildings, Ottawa, Ontario, on Wednesday, November 30, 1938, at 10.30 p.m.

PRESENT:

DR. JOSEPH SIROIS.....CHAIRMAN

JOHN W. DAFOE, ESQ.
DR. ROBERT ALEXANDER MacKAY
PROFESSOR HENRY FORBES ANGUS
) Commissioners

Commission Counsel:

Louis S. St. Laurent, Esq., K.C.

Secretariat:

Alex. Skelton, Esq.	Secretary
Adjutor Savard, Esq.	Secretaire Francais
R. M. Fowler, Esq.	Legal Secretary
Wilfrid Eggleston, Esq.	Assistant to the Secretary

FOR THE MANITOBA GOVERNMENT:

Hon. John Bracken	Premier
Jon. Stuart Garson	Provincial Treasurer
Hon. W. J. Major	Attorney General
Dr. A. R. Upgren	University of Minnesota
Dr. Alvin H. Hansen	Harward University
Dr. Jacob Viner	University of Chicago

Railway Committee Room,
House of Commons,
Ottawa, Ont.,
November 30, 1938.

MORNING SESSION

The Commission met at 10.30 a.m.

THE CHAIRMAN: We are ready, Mr. Bracken.

HON. MR. BRACKEN: Mr. Chairman, before Dr. Viner commences his remarks, there were two questions asked the other day that were not answered which might be referred to now.

I think it was the Chairman who asked where the information that was presented with regard to the development of industry in western Canada came from. It came from the Canada Year Book.

I think Dr. MacKay also asked a question with regard to the chronology of tariff impositions in certain European countries and America. Dr. Viner will deal with that this morning and answer it as fully as he can.

Dr. Viner, I may say, has been our consultant in this connection from the beginning, and he will have a further statement to make with respect to the burden of tariff policies. As I have explained before, Dr. Viner is Professor of Political Economy at the University of Chicago, and we are happy that he has found it possible to come and help us in this connection.

THE CHAIRMAN: We shall be very glad to hear him.

DR. JACOB VINER (University of Chicago): Mr. Chairman and Commissioners, I am not following the same procedure with respect to my statement on the tariff that Dr. Hansen followed yesterday with respect to the monetary question because I find that on the whole the proceedings before this Commission do not show that there is any essential difference of opinion as to the existence of a tariff

burden on the Prairie Provinces, but rather the matters at issue are the nature and extent and severity of that tariff burden. So that I shall in the main confine myself to what is a somewhat narrow and exceedingly technical and, I fear, somewhat dull subject, namely, the technical problem of measuring the tariff burden on a region; and in discussing that technical question I shall proceed to re-state our estimates in the light of criticisms which have been made of those estimates, some of which criticisms we reject, on one ground or another, but some others of which we are going to accept.

"MANITOBA'S ARGUMENT WITH RESPECT TO
THE BURDEN ON THE PRAIRIE PROVINCES
AS A RESULT OF DOMINION TARIFF POLICY:
A SUPPLEMENTARY STATEMENT: SUBMISSION
BY DR. JACOB VINER"

"We submit herewith a supplementary statement of our position with respect to the burden accruing to the Prairie Provinces as a result of Dominion tariff policy. Criticisms have been made of important phases of our original presentation, involving challenges of our estimates of burden and in some cases misunderstanding of just what our position was. We feel we owe it to the Commission and the public, as well as to ourselves, to answer these criticisms where they can be answered, and to correct any misinterpretations of our position. We will endeavour, however, to avoid unnecessary repetition of material which has already been presented to you, and to be as brief and to the point as possible. We have been operating under a rigorous time schedule, and under the handicap of absence of vital statistical data, and in consequence we may on many points have failed to develop the full inherent strength of the Prairie Provinces' case. Since the issues involved are of

"major importance to the Prairie Provinces, we are of course anxious that their case be not prejudiced by the limitations of time, of personnel, and of available data, under which we have been compelled by circumstances to operate.

"We should first make it clear that we are not rendering to the Dominion Government a bill for payment of whatever burdens or disabilities may in our view result for the people of the Prairie Provinces from the Dominion tariff policy. Nor are we presuming to appraise the merits of that policy from the point of view of the Dominion as a whole. We understand that it is only with the relations between the governments of the Provinces and the Dominion Government that this Commission is directly concerned, and that other matters can be appropriately brought forward only as it is made evident that they bear on the nature and equity of these Dominion-Provincial relations. The tariff, however, is a Dominion policy, from which economic disabilities have ensued for the people of the Prairie Provinces, both as producers and as consumers. These disabilities have made the capacity of the people of the Prairie Provinces to support their provincial and local governments smaller, and their need for social service expenditures on the part of these governments greater. By operating to contract the revenues of these governments and to increase the demand upon them for expenditures, the tariff has thus made a contribution, and we contend a very substantial one, to their financial difficulties. Furthermore, the provincial and local governments bear in more direct form an additional tariff burden, concededly not of great dimensions but certainly not negligible, in the higher cost to them as a result of the tariff on the

"supplies, such as building materials, office and institutional furniture, road maintenance machinery, telephone, electric generating and distributing, street railway, fire fighting, sewage construction, garbage disposal, street cleaning and water works equipment, medical supplies for institutions and public health services, stationery and miscellaneous supplies -- which they themselves have to buy at prices made higher by the tariff. It is only, therefore, as the tariff directly or indirectly results in financial burdens for the governments of the Prairie Provinces that we regard it as relevant matter for discussion here. If we attempt to estimate the extent of the tariff burden on the people of the Prairie Provinces, it is only for the purpose of giving some indication of the possible extent of its contribution to the financial difficulties of the Prairie Province governments on the principle of an impoverished people, an impoverished government, "pauvre pays, pauvre roi".

"We wish to make clear also that while we contend that the tariff is a regional disadvantage for the Prairie Provinces, we do not necessarily do so in the sense that the Prairie Provinces' loss is other provinces' gain, since we do not concede -- nor deny -- that other provinces derive a net absolute profit from it. The claims of the Prairie Province governments before this Commission with respect to the tariff are in fact much more modest. What they claim is that the tariff is a Dominion policy, that in so far as the tariff distributes burdens the Prairie Provinces bear a disproportionate share of them, that in so far as it distributes advantages the Prairie Provinces' actual share in them is a negligible one, and that the financial

"difficulties of the Prairie Province Governments are to a significant extent attributable to this cause.

"The question of the nature and proper definition of 'tariff burden' has repeatedly come up, and properly so, in the course of the proceedings before this Commission. It is not a simple question. Economists and others have wrestled with it for over a century, and it cannot be said that there is yet absolutely complete agreement even in the most enlightened quarters. There seems, however, to be approximate agreement among economists at least, and the points still at issue are for the most part and under most circumstances of minor practical importance, whatever their theoretical interest may be.

"First, the burden consists of the reduction of real income resulting from the tariff, or in other words, the reduction in the amounts of goods and services of all kinds which the people of the area can buy with their net money incomes. In the interest of clarity, distinction should be made, however, between tariff burden on a region or area, and tariff burden on the population of that area. The tariff burden on an area is equal to the amount by which the aggregate real income of the area under protection falls short of what it would be in the absence of a protective tariff. The tariff burden on the population of an area, on the other hand, is equal to the amount by which the aggregate real income of a population of the size of that resident there under protection falls short under protection of what the aggregate real income of a population of the same size would be in the absence of a protective tariff."

In other words, the tariff burden on the population of an area is based on the population as it is under protection,

and the tariff burden on an area would take into account the losses in population resulting from economic pressure on that area caused by the tariff.

> "Since for an area for which the tariff is a burden the population and the accumulated capital resources may be presumed to be smaller than they would be in the absence of the tariff, the tariff burden on the area will be greater than the tariff burden on the population of that area. In so far as population and resources can escape from a tariff-burdened area, however, and in so far as such emigration improves, or at least does not impair the economic position of those who remain, the short-run burden on the population is greater than the long-run, whereas the short-run burden on the area is less than the long-run burden. Since we believe that it is the people as such, rather than the area as such, which has human significance, we present our case wholly in terms of the burden on the present population of the Prairie Provinces, although our case would be much stronger, rather than weaker, if we presented it in terms of the burden on the region as such."

May I illustrate the difference there? If the Canadian tariff were so oppressive on Prairie Province production that it became impossible to live there and make a living, the tariff burden on the Prairie Provinces would be zero because there would be no population under protection and there could be no loss; but the burden on the area would be measured by the extent of the income not received or produced in that area because of the tariff. We are taking the lesser one of these figures. In making our calculation we are making no allowance for continuing downward pressure on the resources of the Prairie Provinces.

"Applied to the Prairie Provinces, therefore, 'tariff burden' will be used to signify the amount, measured in money at prevailing prices, by which the aggregate real income of the present population of the Prairie Provinces would increase per annum if the Canadian tariff were removed, and of course if all other things remained the same, as far as the Prairie Provinces were concerned, except those things which would necessarily change as the tariff changed. We believe that no serious flaws can be found in the logical validity of this definition of the tariff burden. Although we freely concede that there are great practical obstacles to giving it a reliable measure in dollars and cents terms, we will argue, however, that even a roughly approximate measure is better than no measure at all, and we will present a revision -- and, we believe, an improvement -- of our original estimate which we are prepared to defend, at least within reasonable limits, against such criticisms of our method of measurement as have so far been directed against it or we ourselves can think of.

"It has been argued before this Commission that the regional allocation of profits and losses from Confederation should be calculated, if at all, in the large, 'in total', and that we should not 'pick out one or two particular policies'. (Professor Taylor, transcript p. 7754.)"

THE CHAIRMAN: For the purposes of the record, would you indicate, Dr. Viner, where Professor Taylor's submission was made.

DR. VINER: It was in his submission on behalf of the Province of Ontario.

THE CHAIRMAN: Thank you.

DR. VINER: Would you like me to give the source in each case?

THE CHAIRMAN: Just for the purposes of the record.

DR. VINER: To continue with my submission:

"We take it that this is not an objection to treating particular items separately, provided all the significant items are treated. We do not contend that we have treated all the items of any significance. But the Prairie Provinces together have, between them, tried to treat all the obviously substantial items.

"But the note has also been struck before the Commission that resort to any attempt at measurement of the regional gains and disabilities resulting from Confederation is of itself inimical to the maintenance of that spirit of national unity which may be presumed without discussion to be a cherished objective of all the participants in the proceedings of this Commission. The continuous calculation of gains and losses, with each region protesting vigorously against any even momentary excess of loss over gain as computed by its own calculators, might well be inimical to the sentiment, and perhaps even to the actual continuance, of national union. But so also, perhaps, would be the persistence unrelieved for decade after decade of a grossly unequal regional allocation of burdens and benefits. With the passage of time and the accompanying change of circumstances and the inevitable failure of consummation of some at least of the original anticipations, any federal compact may reveal urgent need for revision. It is then in the interest of national unity, rather than in conflict with it, that there should be an impartial tribunal before which the people of the regions which feel aggrieved may present the substance of their grievances, in as close

"approximation to quantitative measurement as the nature of the case permits. 'All things in their proper measure', including measurement. But it is even in a more self-restrained way that the Government of Manitoba presents its tariff brief, since, as we have already explained, it confines its application of the contents thereof strictly to the question of the impact of the tariff burden on the finances of the Prairie Province Governments.

"In the case of the tariff, as of other aspects of Dominion policy, there are, we admit, no methods of measurement of burdens or of gains which are even theoretically wholly unobjectionable, and in practical application the logical defects of any mode of measurement would be greatly magnified by the gaps, the inaccuracies, and the irrelevancies for this purpose in the available statistical data. It would be effort-saving and otherwise pleasing if the attempt to measure quantitatively were abandoned. But what would the consequences be? There would be vague verbal argument, couched inevitably in terms of quantitative flavour, but having no visible relationship to actual quantities, or there would be resort to mere listing of debit and credit items, without any genuine attempt to determine their approximate order of size, and therefore without any real contribution to the appraisal of their relative weight. Examination of the proceedings before this Commission will reveal that it has not been those who have expressed the greatest scepticism of the possibilities of measurement who have shown the greatest degree of restraint in resorting to it. We have preferred to make a frank attempt to suggest the dimensions of the factors we discuss, fully conscious

"of and with no effort to conceal the mental hazards connected therewith, and we do not ask nor expect, that there be attached to our measurements more weight than is warranted by their admittedly large margin of probable error.

"Before we explain the logic of the method we have used in obtaining a measure of the burden of the protective tariff on the people of the Prairie Provinces, it will be well, perhaps, if we set forth our reason for not employing an alternative method of calculation, which has been much employed, too much employed, for this purpose, and has been much referred to in the proceedings of this Commission, namely, the use of the average duty collected on dutiable imports, as a measure of the extent to which the prices of commodities subject to duty are higher than they would be in the absence of the tariff. Our reason for not using this method was not that it was less favourable for our case, since, though we did not experiment with it, we have every reason to suppose that we would have reached a higher estimate of tariff burden if we had employed it. Our reason was simply this: the average rate of duty actually collected on dutiable imports measures, if anything, the tariff burden, including the burden of revenue duties, on commodities whose substantial import the tariff does not prevent, whereas the burden which it is our aim to measure is the burden of the tariff with respect to those commodities which, <u>because of the tariff</u>, are not imported at all, or not imported in substantial quantities, but are produced at home instead. Since the revenue duties in a tariff may be high, and the protective duties low, and since protective duties may be only very partially effective in raising

"domestic prices, the average rate of duties collected on dutiable imported commodities may be very much higher than the average amount by which the protective duties raise the prices of protected commodities. We believe that the average price-raising effect of the Canadian tariff for protected commodities is in fact much smaller than the average rate of duty actually collected on dutiable imported commodities. But whether this is so or not, there is absolutely no logical connection between the average duty levied on dutiable imports and the average increase of price of protected commodities caused by the tariff.

"We followed instead a method of estimating the tariff burden based on a direct comparison of the prices prevailing on comparable commodities on the Canadian and the American sides of the border, on the assumption that any excess in the Canadian over the American price in communities not very far apart must normally be the result of the Canadian tariff. Since an actual comparison of all relevant prices was clearly out of the question, we of necessity resorted to a sampling procedure, and based our estimates on the annual budget of a representative hypothetical farm family. We first separated the commodity expenditures of this representative farm family into the major groups into which these expenditures could conveniently be classified, such as food, household furniture, machinery, etc. For each of these groups, we made actual comparisons of prices for all of the particular items for which comparable price quotations could readily be obtained. For each group, we then computed, for all the items on which we had found an excess of the Canadian over the American price, the total excess for these items of the expenditures

"in a 'normal' year of the representative farm over what the same purchases would have cost if they could have been made at the American prices. For each group, we then multiplied this computed excess cost of items found to be more expensive in Canada by the ratio of the total expenditures for the group as a whole to the total expenditures on items for which price comparisons had been made, thus assuming that for each group the ratio of the aggregate excess cost of the items more expensive in Canada to the total cost of all the items included in the group was the same for those items for which price comparisons had actually been made. We next totalled the added costs for the several groups to get the aggregate added cost per farm family, multiplied this figure by the number of farm families in the Prairie Provinces to obtain the aggregate tariff burden for the farm population of the Prairie Provinces, and finally multiplied the aggregate tariff burden on the farm population by the ratio of total Prairie Province population to farm population to obtain the estimated aggregate tariff burden on the total population of the Prairie Provinces, on the assumption that the tariff burden per family was on the average equal for farm, and for non-farm family.

"Our calculation was made on the basis of 1937 prices and a 'normal' farm budget of $1,075 of retail commodity expenditures. As we assumed equal expenditures for rural and urban population, this means that our estimate of tariff burden is based on total Prairie Province retail commodity expenditures of $620,000,000 per year, which was the average amount of reported <u>retail</u> sales in the Prairie Provinces for the two years 1929-1930, the first a prosperous year

"and the second a depression one. We adopted as the basis of our calculations this figure instead of the much lower figures for the more recent years, because we felt that what was significant was the amount of tariff burden under more normal conditions than those prevailing during the last few years, when the purchasing power of the Prairie Provinces was drastically cut by the disastrous combination of extremely low prices for farm products and extremely low crop yields.

"Before proceeding to an examination of criticisms of specific details of our estimate, we will deal with more general objections to our mode of procedure which have been, or may be raised.

"First, it may be held, as against our concept of tariff burden, that whatever may have been the regional distribution of the burdens -- and presumably also the benefits, such as they may be -- of the tariff duties when first imposed, these burdens tend in the long run to be diffused evenly throughout the national area, by virtue of the migration of productive resources from the burdened to the benefited regions until the earnings per unit of productive resources of the same kind are regionally equalized. Since the Prairie Provinces as a settled region are comparatively young, while the Canadian tariff is old, it may therefore be argued that the persons who settled on the prairies and the capital which flowed there must be assumed to have taken into account before migrating the incidence of the tariff on the probable earnings of personal effort and of capital, and cannot be assumed therefore to be bearing a tariff burden special to that area and disproportionate to what is borne as the result of the tariff

throughout the rest of Canada. This, be it noted, would not constitute a denial that the tariff imposes burdens, but a denial that the tariff imposes its burdens unequally as far as the populations of different areas within the country in question are concerned."

I have stated that argument preliminary to pointing out its qualifications, and have not accepted it.

"The argument that a tariff burden whose impact is initially on one region will tend in the long run, through the operation of the mobility of the productive factors, to spread evenly over the entire country, must be intended to apply only to <u>per capita</u> burdens, and not to <u>aggregate</u> burdens or <u>areas</u>. For it is obviously not true that a given tariff on industrial products will not permanently restrict the economic growth of an area necessarily specialized to agricultural production for export markets. So interpreted, we accept the argument as valid in principle. We will argue, however, that it cannot be applied in any concrete instance without very substantial qualifications, and that its applicability to the Prairie Provinces in particular is extremely limited. But suppose that we were to concede its validity unqualifiedly, as far as "old" tariffs are concerned? We would still contend that it does not apply at all to relatively new increases of tariff protection while they still are relatively new. As for the burden of the 'old' tariff on the Prairie Provinces, even if in fact all the other provinces were equally burdened, which we dispute, that would not, of itself, make the Prairie Provinces' share of the burden any easier to bear.

"The argument that tariff burdens cannot in the long run be unequally distributed regionally rests on an assumed mobility, for labour and for other productive resources, sufficient to bring about in time, other things remaining constant, an approximate equality in the rates of return per unit of each kind of productive factor throughout the national economy. Such mobility is obviously out of the question for natural resources; and natural resources, and their market values, are a peculiarly important element in the extensive agriculture economy of the Prairie Provinces. A tariff continuing unchanged through the years would make the land values of the Prairie Provinces per acre not temporarily but permanently lower than they would be in the absence of the tariff. As soon as the usable land in the Prairie Provinces has become private property, or is purchasable from government only at its market value, changes in the tariff affect the market values of such land for as long a period as the tariff changes persist.

"The regional mobility of capital, even in the long run, is also far from perfect, as is evidenced by the persistence for generation after generation of marked differences in interest rates for Massachusetts and Texas farm mortgages, or English and American bonds. Aside from the incomplete regional equalization of even 'pure interest', there are substantial regional differences in the risk premium charged to the borrower, which are closely related to the prosperity, past and present, of the region."

Of course,we would relate the prosperity, or lack of it, to the tariff.

"It is common knowledge that interest rates on all kinds of loans are persistently higher in the Prairie Provinces than in eastern Canada, and if a tendency toward equalization is working under the surface, it is so far under the surface that its effects are scarcely visible in the recorded data.

"It must be admitted that the rapid rate at which the Prairie Provinces were settled provides indisputable evidence that, in the absence of legal barriers to migration, population does have a great deal of mobility. What needs to be established in order to substantiate the thesis that there is a tendency for earnings to be equalized regionally within not too long a long run, is not, however, the willingness of people to move, but their unwillingness to move except in response to reasonably well informed and accurate anticipations of their economic prospects according as they move to a new region or stay at home."

Perhaps I can make a little clearer what I am driging at. The argument is that essentially a good deal of the tariff was already in effect when the migrants came into the Prairie Provinces, and it is assumed that they must have anticipated it, and that they came in only in such numbers as would permit an equalization of their returns per man or per unit of capital with those prevailing in the rest of Canada.

"The history of the settlement of the Prairie Provinces scarcely offers a happy illustration of soberly calculated migration based on reasonably accurate forecasts of the economic prospects of the region, including the future effects on the prairie economy of the then-existing tariff. If one recalls

"the vigorous governmental promotion of rapid settlement of the area; the extent to which population was drawn in to the area in order to build railways, towns, highways, to service the as yet non-existing industries of the area; the general over-optimism as to the resources and the climate of the area; it becomes somewhat difficult to picture the immigrant population as being governed in their migration by competent and reasonably accurate forecasts of the effect on the then existing tariff on the cost of living, the cost of producing wheat, and the cost of maintaining a reasonable level of local governmental services on the prairies. Is it not more reasonable to assume that it was for the ordinary person coming to the prairies a generation ago impossible to foresee at all clearly what the effect of the tariff on his future prosperity would be, and that he took it for granted that if the tariff, or any other phase of federal policy, should be found to impose upon him an over-heavy burden, it would be modified in his favour?"

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COMMISSIONER ANGUS: Might it not be possible to take it quite simply and say that the settler simply thought of his costs and prices in the area, without thinking whether it was the result of the tariff or not?

DR. VINER: I would say yes. I would think it would be rather fantastic to attribute to the people who came in, with the knowledge they had, a careful itemization of the factors in the economic situation. My point is that they did not, that the circumstances were that you must not assume reasoned calculations as to any part of the economic situation. The whole movement was a mass migration into what was believed to be a fertile area, with government propaganda encouraging them with over-optimistic representations, and everybody believing in it. There was no deceit about it. There was a general failure to calculate, I would say, and certainly on the record the argument that reasonable calculations were made does not stand up in the light of what happened later. The ordinary migrants who came in were not wiser than their government; we can assume that, and I assume you would not contest that; and we know that governments were not wise in their calculations. Many of the settlers in those western areas were migrants in the sense that they came from distant areas, attracted by railroad and government advertising as to the prospects before them. Many of them were not English-speaking, and did not know extensive agriculture. If they had been farmers it was an altogether different kind of farming. And so it seems a little fantastic to me,-although a type of fantasy to which I am professionally addicted, and which is a large part of my stock-in-trade and I have therefore some respect for it -- it seems fantastic to insist upon reasonable anticipations when you have the record there indicating that most of the anticipations were just the opposite.

Continuing:

"In any case, once in, and his savings invested in prairie land, the migrant found himself at the last frontier, with no easy avenue of esdape from his plight open to him."

COMMISSIONER ANGUS: The prairies did not constitute a trap for immigration, did they, in the first instance? You say, "once in, and his savings invested in prairie land, he found himself with no easy escape from his plight." Do you mean escape from his plight when the conditions of the last few years developed, or do you mean that he was caught, say, in 1913, or shall we say 1916?

DR. VINER: That raises the issue of the economic prospects of the prairie. Using your own term, I would say that the population of the prairie provinces was trapped. They were drawn in - I am not placing any moral responsibility upon anyone; I have already said, I think, that I attribute to nobody wilful deceit. But they were drawn in. They were certainly innocent, and they were drawn in on the basis of the prospects held out which hawe been proved to be grossly exaggerated. In addition, there have been circumstances over which nobody in Canada had control which also have operated to their disadvantage. So they were trapped in both senses: first, trapped because they were drawn into an area which apparently has not been able and will not be able to support that size of population, even on the Canadian standard of living; and secondly, they are trapped now, not in the sense that men have trapped them, but trapped by a situation, trapped by a movement towards self-sufficiency on the part of Europe, trapped by a reduction in the per capita consumption of wheat, and trapped also by something they did not fully foresee, that to a large extent the area is and must be specialized to cereal production.

COMMISSIONER ANGUS: You believe they were conscious of being in a trap?

DR. VINER: My knowledge of Canadian economic history

is of a pre-war vintage in the main; I have been brushing up on it perforce in the last few months. But in part it was, I would say, the shutting of one's eyes to the facts, to the warning signals that were given far back in the 50's and 70's and 80's of the last century.

I would go further and say that it is now to me inconceivable that all that propaganda encouraging settlement in the prairie provinces was believed in by those behind it, on the part of some important agencies initiating it. They still use almost the same kind of propaganda to-day. I can show you from Chicago newspapers advertisements of agricultural land on the western prairies, described in glowing terms; and after hearing the tales of woe from those on the prairies I wondered why they did not sell this advertised prairie land to the farmers there - farmers who cannot grow a crop of their own.

I take back what I said about wilful deceit. But if it was not wilful deceit, it was gross carelessness, which is still going on if this advertising has any effect; and as to that, I do not know.

COMMISSIONER ANGUS: Do you think the financial history of the governments in the prairie provinces - to make my question more precise - from 1907 to 1927, shall we say, was that of men who were conscious of living in a trap?

DR. VINER: Oh no. You may say that it is only since 1927 that circumstances have been abnormal. That may be the point of your question.

COMMISSIONER ANGUS: That is the point of my question. In view of this phrase of yours, "In any case, once in, and his savings invested in prairie land, he found himself at the last frontier, with no easy avenue of escape from his plight open to him," I was wondering if that carried a suggestion which you did not intend to make for the moment -

that he got in, but found he was there in a trap.

DR. VINER: That he was immediately conscious of being in a trap? Oh no; the trap was much slower working; it was a different kind of trap. I say that in the prosperity years of the 1920's, and still more in the prosperity years before 1914, there were elements that were not genuine prosperity. There was this town building; railroad building There was prosperity in the process of borrowing funds from the Englishman which he has not got back and will not get back. Part of that prosperity was a spurious prosperity, unless this new capital went to build productive equipment which over the course of long years would produce good earnings and interest on the capital invested. But the prospects are not good that that will be realized. Those who came into that country to build roads and towns, and perhaps later found work in the town, or in the course of time took up land have been trapped by another factor - this spurious factor connected with the opening up of new territory which will prove not to be usable territory. The word "trapped" does suggest design. I did not intend it in that sense.

COMMISSIONER ANGUS: I am afraid it was my word in the first instance.

DR. VINER: Oh then, that is alright, if I did not first use the word myself.

COMMISSIONER MacKAY: A question arises out of this discussion which I should like to put to you, and if you do not care to answer it now, I shall be glad to get your opinion on it later. I infer from a remark you made that you think the western provinces cannot support their present population even - to use your own words - on the Canadian standard of living. I would like you to enlarge upon that, either now or later.

DR. VINER: I shall be very happy to do so. I feel

on that question that the issue is very important for Canada. My affection for Canada is still very warm and I really speak with a certain amount of feeling on the question. But in the light of what I have been told and have seen in the prairie provinces themselves, and in the light of my reading, I see only one really possible line of solution for the prairie provinces which in the long run would be tolerable for them and at the same time would be reasonable for Canada as a whole, and that is a serious attempt, with temporary sacrifices of large proportions, if necessary, to blast a place for Canadian wheat in the world market, through a process of continued and vigorous and persistent tariff bargaining and other means of international negotiation. Failing that, we shall only be deceiving ourselves. There will be palliatives, subsidies, bonuses, and a steady deterioration of two and a half million Canadians just as good as the rest of the Canadians. But what happens to a people under a steady process of grinding poverty, malnutrition, and no hope is not pleasant to look upon. The problem is one of major proportions. The presentation of the case here should not lay too much emphasis on the question of how we are going to get through the next few years. It is also of little importance who is historically responsible for the situation. But what is important is how you are going to deal with this problem for the future. Everyone tells me that there is no visible prospect but they may, of course, discover tremendously rich mineral resources in the provinces. But the geologists do not tell you that, and there is no prospect of a population of two and a half millions finding adequate support in that area unless wheat is again made a respectable commodity. Agriculture in the prairie provinces is in the position that the cotton textile industry was in England. When countries wanted

to industrialize, including Canada, the first thing they turned to were cotton textiles, with resultant tragedy for Lancashire. But Lancashire in those days had an escape from grinding poverty and degradation through emigration to Canada and to the United States, and the people of Lancashire emigrated in large numbers, which lessened the burden upon those remaining.

Now wheat is in the same position that cotton textiles were in during those days, and if Canada waits for Australia, we will say, to take action or perhaps the United States, if each country waits for some other country to do something about it, there is no reason why the situation with respect to wheat should not last as long with us as the cotton textile situation lasted in Lancashire, and because of the fewer alternatives available in the Prairie Provinces, the final result may be more disastrous.

COMMISSIONER MacKAY: It is rather a gloomy picture, but I thank you for it.

DR. VINER: I do not draw it in order to make any case at all, but I am considering the economic aspects and I do not see how the Canadian federal government can possibly meet the situation satisfactorily simply through palliative measures. There are no unlimited resources of accumulated wealth in this country, and the only long-run solution of the problem lies in a reconstruction of the international aspects of the Canadian economy which will again restore to that western area the ability to earn its own living and pay its legitimate debts.

Continuing:

> "In the long run, no doubt, his children and grandchildren would find a way of adjusting themselves, through migration or otherwise. Or the adjustment might come through there being no children. But the process of adjustment in either case would be a long and painful one. The Prairie Provinces are

"concerned with their difficulties as they are encountering them in the here and now. Those processes of long-run adjustment which take generations to work out, real though they may be, have obviously brought them only partial, if any, relief from the burdens of old tariff duties. They offer too slow and too painful a remedy for the fresh burdens of the more recent tariff increases.

"We cannot accept, moreover, the thesis of Professor Taylor that the level of tariff protection underwent no substantial change from 1879 and 1930, and if anything changed downward rather than upward. (Transcript, 7748.)"

That is a common impression. I cannot accept it, on the basis of the considerations I am now about to present:

"We showed in our original tariff brief that there was from 1879 on a general movement towards increased rigour of administration of the tariff, tending in particular towards higher valuations of imports for purposes of application of ordinary, and later also of anti-dumping, ad valorem duties. Duties also were for a time supplemented by bounties, which, it is true, did not operate to raise prices to the Prairie Province purchaser, but which operated to his disadvantage by their drain on Dominion financial resources. Because, moreover, of the steady growth in the range of Canadian manufacture under the continued shelter of the tariff, duties which for a time after their first enactment operated wholly or mainly as revenue duties later became increasingly protective in effect, so that their burden for the Prairies shifted in kind from the burden of consumption taxes to the burden of tariff protection yielding no tax revenue as an offset."

I trust I have made it clear that the only tariff burden we are speaking of is the burden of the protective tariff, and not the burden of tariff taxation, which produces a revenue for the federal government since we assume that the Prairie Provinces get the benefit of their share of expenditure arising out of the customs revenue, and so we do not treat as a burden the customs duties collected. It is only the protective aspect of the tariff that we are discussing here.

Continuing:

"There were at intervals substantial reductions in tariff rates, but these were largely reductions in duties on raw or semi-processed materials which operated mainly as revenue duties, so that their effect was to decrease governmental revenues while increasing the margin of protection of the Canadian processing industries. There were

"also many increases of tariff rates, both overt and in the disguised form of changes of tariff classifications, and the increases were predominantly protective rather than revenue in character. The provision with respect to some duties that they should be applicable only when the commodity concerned was substantially produced in Canada constituted in effect an automatic assurance that duties would be levied when their effect would be protective but not when they would serve primarily to produce revenue.

Throughout this period, moreover, there was going on a steady process of change in consumption habits and in agricultural technology, both of which meant, for the prairie farmer, increasing burden from even an unchanged tariff. To an increasing extent food consumption turned from household produced and processed foods to factory processed and packaged foods, and the former were either free from tariff impact or paid only revenue duties, while the factory processed foods were subject to high rates of protective duty. This applied also, although probably to a lesser extent, to such other articles of consumption as clothing, building materials, tobacco, beverages, etc. While the substitution of factory made for home made products was on the whole a source of important benefit for the lower income classes, the tariff tended to restrict the Prairie Province farmer to the rate of progress in variety and quality and cheapness of product of the Canadian tariff protected factories. On the production side of the agrarian economy, a similar historical tendency was operating for the substitution of factory made for farm made productive equipment, with its most spectacular phase but not its only phase the substitution of the automobile and gasoline for farm produced and farm maintained horses and farm produced hay, oats and roughage. Here also tariff protected commodities were necessarily substituted for commodities which the farmer himself produced on an

"export price basis."

What this means is that there have been changes in agricultural techniques and consumption habits that forced the farmer into an open position where the tariff could really hit him.

> "Calculations of the trend of the average rates of duty collected on dutiable or on all imports into Canada are sometimes relied upon to demonstrate that the level of protection afforded by the Canadian tariff has been downward over the years. But the average rate of duty collected on imports is no better an index of the level of protection afforded by the tariff than it is a measure of the tariff burden. The increasing or decreasing success of a tariff as a revenue raising device has no direct or easily traceable relationship to its increasing or decreasing success as a protective measure, or as a measure enhancing prices in Canada of protected commodities. In the United States, the higher the tariff rates went on the protected commodities, the smaller tended to be the average rate of duty collected on the imports which survived the tariff."

So that Republican presidents in the United States, after a tariff has been substantially raised, have always been able to point to the fact, that the average rate of duty collected was smaller, to show that the tariff had really been lowered.

Continuing:

> "If a tariff consists of high protective duties, moderate revenue duties, and a free list consisting mainly of raw materials, as do both the American and the Canadian tariffs, a decline in the average rate of duties collected is more safely to be taken as a presumption that the protective duties have been

"increased or without being increased have become more effective as barriers to import than that the level of protection of domestic industry has been decreased. If the duties intended to have a protective effect were set at a level absolutely prohibitive of import, and if the commodities whose import was genuinely welcomed were put on the free list, the average rate of duty collected on imports might well be zero, but the volume of imports might also be near zero."

(Page 10534 follows.)

COMMISSIONER ANGUS: Does that mean that no imports are genuinely welcome?

DR. VINER: I say that the volume of imports might also be near zero.

COMMISSIONER ANGUS: You mean that practically nothing would be genuinely welcome?

DR. VINER: Not practically nothing, but very nearly nothing; there is a little distinction. In the United States bananas and rubber -

COMMISSIONER ANGUS: And coffee.

DR. VINER: No question has been raised yet with respect to coffee. Rubber and bananas have been on the verge of being taken off the free list. You can see the extreme lengths to which they will go. Minerals that are not found in the country can alone be regarded as the only absolutely safe commodities, safe, that is, from tariff protection, either in the United States or in Canada, and the free list has been shrinking for years in both countries. Certainly the tendency has been significant.

"The differences-in-prices method of estimating the tariff burden does show, at the least, the amount of increase in regional income which would accrue for a time to a region specialized to production for export from the removal of protective duties. This is as much as, for present purposes, at least, we need claim on behalf of this method. Whether the protective duties of long standing are convicted of responsibility for originating a good part of the difficulties of the Prairie Provinces, or, on the other hand, are convicted only of being a serious barrier to relief from these difficulties, it is not a matter of great moment to the Prairie Provinces, provided, however, one or the other of these propositions is granted. We think that much

" can be said for the first proposition, but we would be content with acceptance of the second. It should be pointed out also that the unquestioned increases in the effective level of the protective tariff after 1930, both through higher rates and through arbitrary manipulation of valuations for duty, increased the tariff burden on the Prairie Provinces just at a time when they were least able to absorb it, and thus were especially onerous.

"Professor Taylor, on behalf of the Province of Ontario, has made a detailed criticism of our estimate of tariff burden on the Prairie Provinces. He charges that we have disregarded the off-sets to the tariff burden in the form of tariff benefits accruing to the Prairie Provinces, that we have failed to make some necessary deductions from our estimate of burden for price-differences which cannot be attributed to the tariff, that we have selected a biased sample of commodities for comparison, and that our price comparisons were inaccurate. We will not deny that Professor Taylor has discovered several defects in our original presentation. We will show, however, that these defects do not by any means do fatal damage to our case, that many of his criticisms are invalid in logic or in fact, and that the corrections in our original estimate of tariff burden on the people of the Prairie Provinces which those of his criticisms which are certainly or probably valid call for are largely offset by omissions in our calculation of burden made deliberately, as we explained in our first presentation, to offset any possible errors of over-estimate on our part, as well as by omissions which were made inadvertently.

"Professor Taylor claims that there are benefits derived by the Prairie Provinces from the tariff, which should be deducted from our estimate of the tariff burden. What is the nature and extent of these alleged benefits?

"Professor Taylor states that the Prairie Provinces have benefited from heavy duties on butter, meat, eggs, sugar and grain; (Ontario brief, Book II, p. 80; transcript, 7768) through the higher prices at which they were thereby enabled to sell them in other parts of Canada. But the sale by the Prairie Provinces to the rest of Canada of some of its products at higher prices than those prevailing in the world market would not of itself be proof of benefit to the Prairie Provinces from the duties unless it were clear that the resources entering into their production could not earn as much in the other unprotected industries of the Prairie Provinces. If such was not the case, these duties would be a burden both to the Prairie Provinces and to the rest of Canada. In any case, while no comprehensive data exist as to interprovincial trade, it is clear that the amount of annual sales of these commodities by the Prairie Provinces to other provinces at prices higher than world prices must be of very small dimensions. Of the commodities specifically cited by Professor Taylor, the grains are always exported on a large scale and therefore must sell in Canada at their export prices, livestock products are generally and butter is frequently on an export basis, and sugar is produced in the Prairie Provinces in quantities insufficient to meet the needs of Prairie Province consumption, leaving eggs alone - and even that item questionable - as the sole commodity of those cited

"with respect to which the Prairie Provinces may be in a position because of the tariff to levy a toll on the other provinces. For the year, 1933, the latest year for which we have been able to find such data, the total value of poultry and eggs combined loaded on cars in the Prairie Provinces was $1,421,000 and as the quantities unloaded from cars in the Prairie Provinces were not much smaller, the net shipments out of the Prairie Provinces must have been small (Dominion Bureau of Statistics, The Prarie Provinces in their Relation to the National Economy, Ottawa, 1934, pp.97,93).

"Professor Taylor cites also, as another benefit accruing to the Prairie Provinces from the tariff, that "Prairie products have found a prominent place in Canadian trade treaties." Any benefit accruing in this manner would normally result from the reduction or removal rather than from the imposition of import duties by Canada, and it is true that by using tariff reductions to secure tariff concessions from other countries Canada would confer a double benefit on the Prairie Provinces, aiding them as sellers and relieving them as buyers. But such benefits would result not from the tariff, but from its reduction, and we do not deny that the Prairie Provinces would benefit from reductions in the Canadian tariff. We cannot find, moreover, that the Prairie Provinces have derived any important advantages for their major export products in the trade treaties into which Canada has so far entered, with the one exception of the trade agreement with the United States. The British preferential concession of 6 cents a bushel on wheat has not enabled Canada to sell her wheat at a higher price. More

"wheat is available from preferential sources than Great Britain will purchase, and Canada must dispose of a substantial proportion of her wheat in other markets at the world price. Great Britain therefore does not pay a higher price for Canadian wheat (aside from quality differentials) than the world price. The British concessions on cattle were for a time followed by substantial increases in Canadian exports to the British market, but much more important than the concessions in making this increase possible were the trade war with Ireland and the British restrictions imposed on sanitary grounds on the import of Argentine cattle. The exports of cattle to England have in recent years been very small. Other concessions obtained in trade agreements - "

With the exception, once more, of the American agreement, which is an important one, of value to the Prairie Provinces.

"Other concessions obtained in trade agreements have also been of only temporary or minor importance to the Prairie Provinces. It should not be forgotten also, when external markets for Canadian agricultural products are under consideration, that the tariff barriers maintained by Canada against the import of manufactured products have their due share of responsibility for the endeavours of the industrial countries of Europe to produce for themselves their necessary food supplies, and consequently for their restrictions on the import of grain. If the favourable effects on external markets of the minor reductions which have been made from the Canadian tariff in trade agreements are to be cited as a benefit to the Prairie Provinces from the tariff, we must insist on citing the unfavourable

"effects on external markets of the very substantial portion of the Canadian tariff which remains as an additional burden on the Prairie Provinces."

May I say a word in reference to the question which Commissioner MacKay put to Premier Bracken yesterday or the day before, regarding the chronology of the enactment of tariffs from 1930, on. Premier Bracken made that statement in part, at least, on the strength of discussions with me, so that I accept responsibility for it. Unfortunately, I find myself restricted as to both time and available materials, which prevents me from giving you what I regard as satisfactory support for his statement. The proposition was this: that some of the European tariff increases in the period after 1930 were in response to increase in the United States of its tariff in 1930. There is an interesting book that lists and analyzes the retaliations and counter-measures which the European countries took against the Hawley-Smoot tariff. The book is not available in Ottawa. But there you have a whole book on that one topic of retaliation against the Hawley-Smoot Act, surveying the course of European legislation.

Now, retaliation is itself an ambiguous word. Sometimes countries pass a measure which is not retaliatory but appears to be, and it has that appearance because they think it has more punch and may be useful as exerting pressure. At other times they actually retaliate but they do not allow their retaliation to appear in any overt manner. At other times, again, they simply adjust themselves to any changes that have been brought about. As I recall, what the author does in this book is to go through the discussions that have taken place in the European legislatures with respect to changes in tariff, in order to find out to what extent

changes in the tariff may be explained, in part at least, as an effort to effect an adjustment to a changed situation caused by the increase in the American tariff. That the United States must accept responsibility in part for what has occurred since 1930, Secretary Hull has repeatedly said. A good deal of what was done was attributable to mistakes on the part of the United States, including the 1930 mistake. I would say, therefore, that Premier Bracken was fully justified in his statement that a part at least of the upward movement of tariffs and trade barriers in general was in response to the increase by the United States of its tariff at a peculiarly unfortunate time in the development of the economic affairs of the western world.

> "Professor Taylor cites as another defect of our estimate of tariff burden that we erred by making "heavy claims" on items which are largely produced on the prairies, and presumably consumed there also, and he cites sugar, harness, cement, and petroleum products as cases in point. (Ontario Brief, Book II, p. 83; also Transcript, 7768). We take it that what he had in mind was that it was a mistake on our part to include as a tariff burden on the Prairie Provinces the excess of Canadian over American prices, even if the Canadian tariff was responsible for them, when this excess was paid to Prairie Province producers of the commodities in question. We concede that we should not have included in our estimate of tariff burden, on a parity with excesses of Canadian over American prices on commodities whose Prairie Provinces' consumption was provided by Prairie Provinces' production."

There is a line left out of the text. The sentence should read:

"We concede that we should not have included in our estimate of tariff burden, on a parity with excesses of Canadian over American prices on commodities not produced in the Prairie Provinces, excesses of Canadian over American prices on commodities whose Prairie Provinces' consumption was provided by Prairie Provinces' production."

It is a terrible sentence, but I am not sure that much more could be done with it and still convey the meaning I had in mind. Professor Taylor argues that it was not right for us to include in our measurement of tariff burden price enhancement to Prairie Province buyers on commodities which were produced in the Prairies themselves. I say that is a valid objection. I am not [illegible] in order to refute him but in order that we may correct our own presentation.

"We think, however, that the correction in our estimate called for on this score is negligible, on the following grounds:

"First, an excess of Canadian over American prices paid by Prairie Province purchasers, even if paid to Prairie Province producers, still represents a tariff burden to the Prairie Provinces if, and to the extent that, the two following conditions are present:

" (a) When the commodities in question are produced from materials, or with plant and equipment, purchased from other provinces at prices higher, because of the Canadian tariff, than the prices prevailing in the United States. If, for example, clothing were produced in Winnipeg using woollen cloth and machinery purchased in the central provinces at prices higher than the American prices, and such clothing were sold

"in Winnipeg at higher prices than similar clothing commanded on the other side of the border, this excess of Canadian over American prices would still represent a tariff burden on the Prairie Provinces to the extent that it could be accounted for by the higher prices of the cloth and the machinery used in its manufacture. Such manufacturing as exists in the Prairie Provinces is conducted almost wholly from machinery purchased elsewhere in Canada at prices made higher by the Canadian tariff and uses materials which are also largely purchased elsewhere in Canada at tariff-enhanced prices.

" (b) If the labour (and other local services) used in the production of such commodities do not earn higher rates of remuneration than they could earn, with equal satisfaction, in other Prairie Province industries without effective tariff protection, then to the extent that the higher Canadian than American prices are accounted for by higher Canadian than American labour costs they still constitute a burden on the Prairie Provinces for which the Canadian tariff is responsible."

COMMISSIONER ANGUS: I do not want to make a pedantic suggestion, but is it to the extent that either of the two conditions is present, or must you have both conditions?

DR. VINER: Either. But you may be able, with the two combined, to over-explain the excess. Each, however, offers a partial explanation of the excess of price.

"If a thorough analysis of the costs of Prairie Province production of commodities higher in price in Canada than in the United States could be carried out, it might well show that these two items of tariff-caused higher cost with which no Prairie Province benefit was associated were responsible for most of the

"excess of Canadian over American prices of such commodities.

"Of the specific commodities cited by Professor Taylor, we have been able to find official statistics of employment in their production in the Prairie Provinces only for harness, where the number of wage-earners from June 1, 1935 to June 1, 1936 was 131, some of whom were probably engaged in repair work (Dominion Bureau of Statistics. Earnings and Employment among Wage-Earners for the provinces of Manitoba, Saskatchewan and Alberta, Ottawa, 1937, p. 14), and for petroleum products, where the number of employees was 937 in 1935 (The Prairie Provinces in their Relation to the National Economy of Canada, Supplement, pp.79, 80). We will show, by an analysis of the official statistics for manufacturing in the Prairie Provinces, that not only the commodities cited by Professor Taylor but also all manufactured products which can conceivably benefit from tariff protection are produced in the Prairie Provinces in so small proportions that the total benefit the Prairie Provinces can derive from the tariff on their account cannot possibly be appreciable.

"Dominion Bureau of Statistics data for "manufacturing" in the Prairie Provinces for the year, 1936, report the following:

Number of Employees	41,681
Salaries and Wages Paid	$ 43,729,000.
Cost of Materials Used	$138,809,000.

"These are small amounts for a population of well over 2,000,000. But as amounts which are representative of manufacturing which can conceivably benefit directly from tariff protection, they must be

"drastically reduced. Separate data are given for only 24 classes of industry for Manitoba and for only 10 classes each for Saskatchewan and Alberta. If, nevertheless, there be eliminated the amounts for specifically enumerated industries which can on inspection be seen to be industries which cannot directly benefit from tariff protection, either because they are on an export basis and therefore sell at world prices, or because they are necessarily local in character, thus enjoying "natural protection," there remain for the specifically enumerated industries only 24.5 per cent of the employees, 21 per cent of the payroll, and 24 per cent of the cost of materials which may possibly benefit from the tariff, even if all genuinely doubtful cases are decided in favour of the tariff. (The industries thus eliminated, as not being in a position to benefit from the tariff, are: slaughtering and meat-packing, flour and feed mills, butter and cheese, malt and malt products, as being export industries; railway rolling-stock (mostly repair work), central electric stations, printing, publishing and bookbinding (mostly newspapers and local job-printing), bread and other bakery products, dyeing, cleaning and laundry work, coke and gas products, as being necessarily local in character and therefore naturally sheltered against external competition.)

"If to the data for all manufacturing industries, there be applied these percentages found conservatively applicable to the specifically enumerated industries, there result, as the amounts of all Prairie Province manufacturing which may conceivably benefit from the tariff, the following modest items:

" Number of Employees 10,212

Wages and Salaries Paid $ 9,183,000.

Cost of Materials $33,453,000.

" In the case of the materials, it should be noted that any benefit the Prairie Provinces may derive from their protection under the tariff would be confined to the fraction thereof produced in the Prairie Provinces and not on an export price basis. That even these figures give a grossly exaggerated picture of the amount of manufacturing in the Prairie Provinces which is capable of benefiting from protection is indicated by the fact that in the non-enumerated occupations included under the category of "engaged in manufacturing" are, among others of a similar nature, boot and shoe repairers, tailors, blacksmiths, watch repairers, cabinet makers and upholsterers, and that one of the industries included in the total figures but not separately enumerated because of the smallness of the number of establishments is the substantial non-ferrous metal smelting industry, which is on an export basis. (A table presenting the details of our calculation, and giving the official source of our data, is presented herewith).

I cite these categories, not because there is anything wanting in the quality of their work, but because their work is necessarily local in character. There cannot be a tariff on shoe-repairing or watch-repairing -- not effectively.

COMMISSIONER MacKAY: What size of unit does the Bureau specify?

DR. VINER: I have forgotten the manufacturing statistics. I have worked with the Canadian statistics, but

Industry	Number of Employees				Salaries and Wages($000)				Cost of Materials($000)			
	Man.	Sask.	Alta.	P.P.	Man.	Sask.	Alta.	P.P.	Man.	Sask.	Alta.	P.P.
Slaughtering & Meat Packing	1,674	648	1,462	3,784	1,938	643	1,674	4,255	17,502	5,300	[illegible]	35,243
Railway Rolling Stock	4,223	(a)	1,505	5,728	4,559	(a)	1,589	6,148	4,298	(a)	1,145	5,443
Butter & Cheese	1,079	801	806	2,686	1,354	827	851	3,032	4,755	4,368	4,369	13,492
Flour & Feed Mills	491	579	677	1,747	470	620	738	1,823	6,065	9,321	8,774	24,160
Central Electric Stations	1,208	552	578	2,338	1,588	785	842	3,215	-	-	-	-
Printing & Publishing	1,083	826	795	2,704	1,574	1,081	1,043	3,698	559	417	441	1,417
Printing & Bookbinding	1,145		(b)	1,145	1,305	(b)	(b)	1,305	1,097	(b)	(b)	1,097
Bread & Other Pastry Products	1,028	540	661	2,229	900	428	570	1,898	1,493	862	1,169	3,524
Malt & Malt Products	109	(a)	(a)	109	211	(a)	(a)	211	1,819	(a)	(a)	1,819
Dyeing,Cleaning& Laundry Works	835	256	(a)	1,091	710	190	(a)	900	173	60	(a)	233
Coke & Gas Products	157	(a)	(a)	157	196	(a)	(a)	196	444	(a)	(a)	444
(1) TOTAL OF ABOVE	13,032	4,202	6,484	23,718	14,805	4,574	7,307	26,686	38,205	20,328	28,339	86,872
(2) TOTAL OF ALL INDUSTRIES SEPARATELY LISTED	17,463	5,336	8,614	31,413	19,043	5,569	9,170	33,782	50,784	26,358	38,316	114,458
(3) TOTAL OF ALL INDUSTRIES	23,239	6,355	12,087	41,681	24,701	6,524	12,504	43,729	67,930	28,047	42,832	138,809
(4) % (2)-(1) is of (2)	25.38	21.25	24.72	24.50	22.3	17.2	20.31	21.0	24.77	19.84	26.0	24.1
(5) POSSIBLY BENEFITED BY PROTECTION(3) x (4)	5,893	1,350	2,986	10,212	5,508	1,122	2,540	9,183	16,826	5,565	11,136	33,453

Computed from data given in Dominion Bureau of Statistics,The Prairie Provinces in their Relation to the National Economy of Canada. Supplement. (no date).

(a) Not separately enumerated.

(b) Included under "Printing & Publishing"

there have been changes in the categories and classifications. However, it is very small -- three or five. Does anyone know?

MR. R. J. DEACHMAN: Five.

DR. VINER: I know it is very small. I would point out that the statistics deliberately omit details for one industry, which is substantially an export industry, on the ground that the number of firms were so few that what would constitute confidential information would be disclosed if the data were given. I refer to the non-ferrous industry. It is a substantial industry, and on an export basis and therefore cannot be effectively protected by the tariff. I conclude that particular point by observing that that leaves practically a negligible proportion of the manufacturing industry -- using the term in its widest sense -- existing in the Prairies, which could conceivably benefit from tariff protection. I have given details in a table which you will find included in the brief.

"Professor Taylor claims also that in estimating the tariff burden we were mistaken in basing our computation only on the excesses of Canadian over American prices and in not deducting from the figure so reached the excesses of American over Canadian prices. (Ibid. p.81). Our estimates he says: "consider only those items in which the Canadian price is higher. No credit is given for the very large number of items that are cheaper in Canada. A great many other commodities entering into any family budget which are well known to be much cheaper in Canada are not even listed." (Ontario Brief, Book II, p.81). He is insistent on this point (Transcript, 7768, 7781), although the only possible grounds for his insistence that we can conceive of are either that he believes that where Canadian prices are

"lower than American prices they have been made lower by the Canadian tariff, or, an even stranger line of reasoning, that if the Canadian tariff were removed Canadians would somehow be forced to buy in the United States products which they can procure more cheaply in Canada or in other countries. It should be clear enough that the effect of a tariff on the prices of the country levying the tariff is to raise them and not to lower them, and that when Canadian prices are lower than prices outside it is in spite of the tariff, and not because of it.

"We conclude therefore that Professor Taylor has failed to make a plausible case for a deduction from our estimate of the tariff burden on the score of offsetting tariff benefits to the Prairie Provinces. If such benefits exist at all, of which we have found no evidence, we are convinced that they cannot be appreciable in amount.

"Professor Taylor claims also that we have been guilty in four specific instances which he cites of resting our estimate on mistaken comparisons of American and Canadian prices. (Ibid. p.82). Before examining in detail his criticisms of our data, we should explain the procedure we followed in making our price comparisons. We obtained the cooperation of a recognized expert in the field of agricultural prices, who had obtained his doctorate on a thesis involving the field study of prices paid by farmers. The comparisons were made mainly in the field, from actual samples of the commodities, and the price quotations were obtained from the local merchants, although some were taken from mail-order catalogues. The comparisons were checked in the field by a member of our staff

"who later re-checked them for items showing price differences which appeared extreme or out of line with common information, and these items were again checked in the field. Some errors nevertheless persisted. This is not a field of activity in which I can personally claim any competence, but the possibilities of honest error are obviously abundant, and a re-checking of the disputed items reveals that mistakes were made.

"With respect to tires we somehow did make the mistake which Mr. Taylor charges (Ontario brief, Book II, p.82) of comparing the prices of unlike grades. For regular 4 ply tires, where we originally found a price-difference of $4.90 per tire, and Mr. Taylor found a price difference of only $2.00, we have re-checked and find that the price-difference is now only $1.75, or even less than that conceded by Mr. Taylor. The correction in our estimate of tariff burden this requires is $5.80 per farm, or $3,360,000 for the Prairie Provinces as a whole.

"On electric motors, Professor Taylor concedes that on a representative and comparable model there is a substantial excess in the Canadian over the American price, although much less than what we found. (Ontario brief, Book II, p.81; Transcript, 7785-86). Since, however, we did not include the price-difference with respect to this item in our calculation of added cost, any correction we make on its account would increase rather than decrease our estimate of the total tariff burden.

"On washing machines, we found an American price for a comparable commodity of $84.50 as compared to a Canadian price of $164.00. Professor Taylor comments

"that 'this is clearly absurd. The American machine could be imported into Manitoba, freight, duty, and sales tax paid at a price of $120.' We have re-checked these prices, and now find for the model used in estimating added cost the American price to be $104.50 and the Canadian price $159.00, a price-difference of $55.50, instead of the $79.50 originally found. Whether this reduction is due to a mistake in our original price-comparison or to price changes since, we cannot say, but we will assume the former to be true."

In other words, we will assume that we made a mistake.

"While $55.50 exceeds the amount of duty (U.S. trade agreement rate is 25%) plus sales tax (11 per cent) which would have to be paid upon import of the American machine, our price-comparison was of the American and Canadian retail prices of the identical American-made machine, on the assumption that comparable Canadian-made machines could sell at retail at approximately the same price in the same Canadian market."

I am not sure that we know the correct answer to that question, which has been raised in reference to automobiles. We suggest that the explanation may be found in the Canadian customs valuation procedure, or it may be found in the Canadian patent legislation.

"Professor Taylor raises the question why, in such a case, do not individual Canadians import the American machines? We suggest that the explanation may be found in Canadian valuation procedure or in Canadian patent legislation. We have found Appraisers' Bulletins holding the value for duty purposes on importations by consumers of specified manufactured products to be

"the current home market list prices. List prices are notoriously often very much higher than the actual prices at which the commodities are commonly sold. We have not been able to ascertain, however, what the customs practice is with respect to washing machines.

"Secondly, under Section 45 of the Canadian Patent Act a product patented in Canada, as this product is, cannot legally be sold or imported except by the holder of the patent or his licensee. While this may make the amount of price-difference which is in excess of the duty appear to be a burden resulting from the patent legislation rather than the tariff, this phase of the patent legislation operates simply as a supplement to the tariff, keepint out imports which otherwise could surmount the tariff barrier."

It is a mistake, in interpreting the Canadian tariff, to take too seriously the rates to be found in the schedule. If the rates in the schedule do not keep an import out, then recourse can be had to the anti-dumping law. If, in spite of that, the commodity comes in, the Customs can fix a fictitious value for duty purposes; and if it survives those restraints, then the patent law may suppress import. A sampling which we have made in this connection of a customs broker's entries shows that in many cases there is no relationship between the rates of duties specified in the formal schedule of the tariff law and the rate of duty actually paid by the importer

"The deduction we make from our estimate on account of washing machines is $2.80 per farm, or $1,600,000 for the Prairie Provinces as a whole.

"On overshoes, we found a Canadian price of $3.29 comparable with an American price of $1.98. Professor Taylor claims that the properly comparable prices are $2.85 and $2.35. We made the best comparison we

"could, and placing no reliance on our judgment as to the qualities of the various samples we examined, we chose the most common kind purchased by farmers in the respective towns. We will not dispute Mr. Taylor's prices, and reduce our estimate on this account by approximately $2.38 per farm family or $1,400,000 for the Prairie Provinces as a whole.

"Professor Taylor also objects against our estimate that we failed to make allowance for such excess of Canadian over American prices as could be explained, without reference to the Canadian tariff, as due to the Canadian sales tax, for which there was no counterpart on the American side of the border. We concede that this objection is valid."

We should not have made that mistake; it was a stupid mistake.

"What deduction can we reasonably be asked to make from our estimate on this account?

"A question may be raised as to the extent to which a sales tax as comprehensive as the Canadian one is wholly shifted to the purchaser at retail, and it seems to us unlikely that none of it has to be borne by the producing and merchandising agencies, or by the factors of production engaged in producing them."

In other words, it seems to us reasonable that a tax as general and heavy as the Canadian sales tax would result, in part, in backward shifting, to use the technical term.

"We do not press this point, however, and concede for present purposes that the sales tax is fully reflected in Canadian prices. Nor do we take advantage of Mr. Taylor's concession that American taxes are no doubt reflected also in American prices, since it is only such American taxes as would not be applicable to exports from the United States, or would be remitted

"upon export from the United States, that would not have to be borne by a Canadian purchasing American commodities. The sales tax rate was increased on May 1st, 1936, from 6 to 8 per cent. Our estimate of the tariff burden was based on 1937 prices but a "normal" volume of purchases. The latest year for which the statistics of retail sales are available is the calendar year, 1936, when they amounted to $2.202,202,000. (Canada Year Book, 1938, p.623). During the first four months of this year the sales tax was at the rate of 6 per cent (of manufacturers' domestic sales). In the fiscal year, 1937, during all of which year except one month the new rate of 8 per cent was applicable, the total receipts for all of Canada from sales tax amounted to $112,832,000 (Canada Year Book, 1938, p. 841), or about 5.12 per cent of the total recorded retail sales for the calendar year, 1936. Sales taxes, however, are paid by the manufacturer some time before the commodities on which they are imposed reach the retail purchaser. Also we have applied fiscal year ending March 30, 1937, sales tax receipts to calendar year 1936 recorded retail sales. If, on the average, sales tax is levied three months before the taxed commodity reaches the retail purchaser, which is a very conservative estimate of the time-interval, the data for retail sales we use are some six months behind the corresponding sales tax receipts. According to the Dominion Bureau of Statistics adjusted monthly index of retail sales, the volume of retail sales for the twelve months July 1936 to June 1937 was approximately 4.4 per cent greater than for the calendar year 1936. (Canada Year Book, 1938, p.628). Applying this per-

"centage to our 5.12 per cent ratio reduces it to 4.9 per cent."

All of this involved calculation is simply an attempt to fill in the gap in the data we found available to us. All that we needed were monthly statistics of sales and monthly statistics of sales tax receipts. But we had calendar year data for one and fiscal year data for the other.

"Since the commodities exempt from sales tax are of specially great importance for the Prairie Provinces, over half of the "normal"budget of commodity expenditures of a representative Prairie Provinces farmer being spent on commodities exempt from sales tax, and since the exempt commodities are specially prominent among the items for which we specifically claim added cost owing to the tariff, we take 4.0 per cent as a conservative estimate of the ratio of sales tax to Prairie Province retail sales. We based our estimate on "normal" commodity expenditures of $620,000,000 in the Prairie Provinces per year. We therefore estimate the amount of sales tax which the Prairie Provinces would pay, at the 8 per cent rate, in a normal year at $24,800,000. The difference between the 8 per cent rate and the rate of 4.0 per cent we use, it perhaps should be explained, is to be accounted for not only by the exemptions from sales tax, but also by the fact that the tax is levied on manufacturers' or on import prices, which would at the outside not exceed 75 per cent of the final retail prices of the commodities.

"Of this $24,800,000 of estimated sales tax payments by Prairie Provinces purchasers in a normal year, only a part is properly to be deducted from our estimate of tariff burden based on excesses of Canadian over American prices. The sales tax falls on commodities which

"are not subject to duty upon importation into Canada and on commodities which are dutiable if imported into Canada but are nevertheless not higher in price in Canada than in the United States. It is only to those commodities which we found or assumed to be higher in price in Canada because of the protective tariff that the correction should be applied, and even in such cases the correction should be at the rate of 4 per cent of their retail prices only where such prices were found or assumed to be higher than the corresponding American prices by at least 4 per cent.

"In our estimate of tariff burden, we claim added cost because of the tariff on 62.5 per cent of the Prairie Province normal retail commodity purchases. Making a small adjustment for items on which the excess of Canadian over American price is less than 4 per cent, we estimate that 60 per cent of the sales tax paid on Prairie Province normal retail sales of $620,000,000, or $14,900,000, would be paid in a normal year with respect to commodities for which we claim added cost as a result of tariff protection of Canadian industry. We therefore deduct this $14,900,000 from our estimate of tariff burden on the Prairie Provinces.

"We cannot accept, therefore, the estimate offered by Professor Taylor, of $40 per farm family, which is nearly equivalent to the full amount of sales taxes which would be paid on "normal" retail sales, (Ontario brief, Book II, p.80; also transcript, p.7789) as the amount which should be deducted per family from our estimate of tariff burden on account of sales taxes. Mr. Taylor apparently overlooks that the sales tax is levied on the basis of manufacturers' and not

"retail sales prices, and that deduction should be made for sales tax not on all purchases but only on those purchases with respect to which we claim added cost. We similarly reject, as irrelevant, Mr. St. Laurent's juxtaposition of an estimate of customs and excise tax payments per family with our estimate of the tariff burden per family, with the obvious implication that as the former is greater than the latter, it must absorb the latter. (Transcript, pp.196 D - 196 F.). These are separate burdens. It is true that the price-difference method of estimating the tariff burden, if not corrected for sales tax (and also for revenue duties), will produce a figure which contains tax burden as well as tariff burden, But after proper corrections are made, a lot of tariff burden will still be left.

"We should similarly correct our estimate of the burden of the protective tariff for prices higher because of customs duties paid thereon which furnished revenue for the Dominion Treasury. Taking the retail sales for the calendar year 1936 and the customs duties collected (apparently inclusive of the special excise tax) for October 1935 to September 1936, on the assumption of a three-months lag between collection of customs duties and retail sales of the commodities on which they had been collected, we find that customs duties collected were 3.86 per cent of retail sales. (Canada Year Book, 1938, p. 623, for retail sales; Dominion Bureau of Statistics, E.T.P.B. No. 1, Dec. 1937 for customs collections.)

"The commodities which are imported although subject to heavy import duties consist in large part of luxury and semi-luxury products too expensive for the Prairie

"Provinces market. A large department store in Winnipeg reports to us that only 8 per cent of the merchandise it sells consists of imported merchandise, and the proportion must be still smaller for the stores in the rural areas. Imported materials which have paid duty are embodied, however, in the finished products purchased from Canadian manufacturers or processers, and these duties will be reflected in their retail prices. Since undoubtedly a larger proportion of the commodity expenditures of the higher income groups than of the lower income groups consist of purchases of commodities on which high customs duties have been collected and the higher income groups are but meagrely represented in the Prairie Provinces, we believe we are justified in reducing the percent of customs duties collected to commodity retail sales in the Prairie Provinces to 3 per cent. We take the normal commodity expenditures of the Prairie Provinces as $620,000,000 per year. Applying the 3 per cent ratio to the 62.5 per cent of Prairie Province commodity expenditures for which we claim added cost owing to the tariff, we get $11,625,000 as the deduction to be made on account of customs duties collected from our original estimate of tariff burden.

"We believe that this deduction of $11,625,000 is sufficient correction to take care of the specific items mentioned by Professor Taylor, coffee, prunes, raisins, and oranges, as well as of any other items in which revenue duty accounts for the price-differences we found, especially since we have already made a substantial deduction from these other price differences on account of sales tax, and since in the case of coffee and raisins some protection of Canadian packing and/or blending may result from the import duties.

"We have now taken account of all the specific objections to our original estimate whose validity we concede. We believe we have been as generous in these corrections as can reasonably be demanded. They total up to $32,885,000, as compared to our original estimate of tariff burden on the Prairie Provinces of $58,000,000. We do not see any valid ground for further deductions. We will later show that we are entitled to make some substantial corrections in the other direction. Professor Taylor, however, added to his specific criticisms others couched in general terms which if left unanswered may lead you to suspect that still further deductions from our estimate would have to be made if his criticisms were fully to be met. Mr. Taylor says, for example, that 'The argument does not even pretend to examine the effects of the tariff as a whole; it merely picks and chooses among its items.' (Ontario brief, Book II, p.81). The implication is obvious that we worked from a sample, and that we deliberately loaded our sample in our favour. Recourse to a sample was necessary, since there are literally tens of thousands of separately distinguishable commodities in commerce in a modern economy such as the Canadian. Professor Taylor knows that working from a sample necessarily involves attributing on the average to the items not included the same characteristics found to apply to the items included, and that this is a legitimate procedure -- and often, as in this case, the only possible procedure -- provided the sample has been objectively and competently selected, and is a substantial one. He has not presented any concrete evidence of bias in our sample, and the concrete instances which he has

"presented of alleged faulty sampling, such as our failure to offset excesses of Canadian price over American by excesses of American prices over Canadian where we found them to exist, we have shown, we believe, should be rejected as being based on faulty analysis of the problem under consideration. We will later show that, on the contrary, in order to provide offsets for any possible errors in our favour in our price-comparisons and any inadequacy in the representativeness of our samples also working in our favour, we deliberately loaded our samples against ourselves. Where in our favour errors have been found, we are now making ample correction for them. It is only fair to point out, moreover, that Professor Taylor's method of dealing with our estimate was admittedly not designed to lead to discovery or to disclosure of errors when these errors operated against us instead of in our favour, and that there is no reason to suppose that we made no errors to our disadvantage, if you accept our assurance, as we must ask you to do, that we were as objective in our procedure as we knew how to be. It should also not be hard to convince anyone that we found merchants much less willing to reveal evidence of high prices than Professor Taylor has found them to supply evidence that their prices were not as high as we claimed.

"Professor Taylor complains against our sample, that 'A great many other commodities entering into any family budget which are well known to be much cheaper in Canada are not even listed.' (Ontario Brief, Book II, p.81). That may be true, but it is certainly true that literally hundreds of commodities of common use

"which ..are well known, or can readily be shown, to be dearer in Canada, were also not listed. It is, we repeat, a necessary characteristic of a sample that it does not include all the possible items, but we would be happy to match lists of omitted commodities which are dearer against his lists of omitted commodities which are cheaper in Canada than in the United States.

"Professor Taylor objects that 'The sample prices obtained are often highly unrepresentative.' 'For example,' he says, '60 per cent of the claim under building materials is for paint and shingle stain.' (Ontario Brief, Book II, p.83). If there was lack of representativeness in this sample, we sinned against ourselves. We claimed for the entire buildings material group a total added cost per farm of only $7.16, of which $4.36 was on account of paint and shingle stain. It was the modesty of our total claims on account of building materials which made our claims on behalf of paint loom up so large on a percentage basis. We really do not believe that $7.16 represents adequately the total added cost per year per farm of building materials resulting from the tariff, but that is all we claimed.

" Prfessor Taylor objects also to the assumption we made in reaching our estimate of aggregate tariff burden that the per capita burden on the urban population was equal to that on the rural, although he presents no reasons why it should be regarded as unreasonable. (Ontario Brief, Book II, p.81; Transcript, p. 7780). The absence of statistical data relating to representative urban budgets left us no other recourse but use of a representative farm budget as the basis of our estimate. Our assumption that the total tariff burden

"on a non-farm population was equal to that on farm population, however, was not an arbitrary one. The non-farm and the farm population were approximately equal, and we found that the estimated purchases at retail of the farm population were in a normal year slightly less than half of the total retail sales in the Prairie Provinces as officially estimated. Since special consideration has been paid to the farmer in the enactment of tariff duties, and since many of the semi-luxury items, subject to high duties, such as toilet articles, drugs and medical supplies, household ornaments, radios, fresh fruits and vegetables, manufactures of silk, sporting goods, and so forth, are meagrely represented in the representative prairie farm budget, but play an appreciable role in the budget of the urban family, we thought -- and still think -- we were giving evidence of our determination to be fair when we assumed that the tariff burden per capita on the urban population was no higher than that on the farmer. In the farmer's total expenditure, it is true, producers' goods play a larger part than they do in the per capita expenditures of the urban population of the Prairie Provinces, and if income per capita were equal on the farm and in the city, this might seem to call for larger per capita expenditures on the farm than in the city. But a substantial part of the farmer's income is produced on the farm, and does not appear in the figures of retail sales.

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Professor Taylor has objected also against our emphasis on the burden of the tariff on the Prairie Provinces that it is also burdensome on Ontario, and went in some detail into the nature of these burdens. In his oral presentation, he went so far, if we interpret him correctly, as to declare his assurance that if he were to go at it seriously he could demonstrate that the tariff was as burdensome to Ontario as to the rest of Canada. (Ontario Brief, Book II, p. 80; Transcript, pp. 7765, 7778). This calls to mind the proverbial minister to a wealthy congregation whose favourite sermon topic was "On the Burden of Riches". In any case, if the people of Ontario could be brought to share this view, and to act accordingly, the economic prospect of the Prairie Provinces would be much rosier, and their reappearance in the future before a Commission such as this in the role of petitioner for relief from unbearable burdens would be much less probable.

One further question which has been raised as to the validity of the price-differences method remains to be dealt with. It has been suggested that an excess of Canadian over American retail prices might be due to higher retailing costs on the Canadian side of the border. Even if the Canadian costs were substantially higher now, we do not see how they could remain so in communities not far distant from each other if there were no tariff wall between them. We find, however, that the average operating expenses, including an estimated remuneration for the manager where he was owner of the store, as per cent of sales for retail stores, as shown by official census data for the latest comparable date, were approximately the same for Canada and the United States, and also for Manitoba

and Minnesota."

COMMISSIONER ANGUS: I should like to refer to the sentence beginning: "Even if the Canadian costs were substantially higher now, we do not see how they could remain so in communities not far distant from each other if there were no tariff wall between them." The implication of that would be that the retailer as such might be benefiting a little from protection, would it not?

DR. VINER: No, it might not mean that. The operating costs of the retailer might be higher in Canada because of the tariff, and he could force the consumer to bear the higher costs under the tariff; but if retailing is made more costly by the tariff that extra cost would tend to disappear under free trade. If there is some basic reason, however, why retailing on the prairie provinces is necessarily more costly than on the American side of the border, then for wide stretches along the border, under free trade the Americans would do the retailing.

COMMISSIONER ANGUS: I can follow that, if the retailer is in business in Canada by virtue of the tariff; otherwise the American retailer would do the retailing. Is he not rather analagous to the local producer for local consumption benefiting under a tariff?

DR. VINER: It depends upon how near the American town would have to be; and I would say nowadays it can be pretty far and still set the approximate level for retail margins in the absence of the tariff. But I would say that in the first case I see no particular reason why there should be very much difference in the rate, and in fact there is not much difference.

COMMISSIONER ANGUS: That comes later. I was dealing merely with this one sentence. In so far as this applies would not there be a certain analogy to the production?

DR. VINER: Yes, I would so in so far as a retailer on

the Canadian side would not be concerned with the retailing mark-up of the American retailer. Then tariff or no tariff he has, apparently, a protection from distance, and within limits, of course, it is neither due to the tariff nor would it disappear with removal of the tariff. But as far as the question of fact is concerned, if I may say so, Mr. Angus, it was you who originally raised that point and it was a valid point. We were even prepared to make a concession on it if we had found the data showed such was necessary. It really is a little curious how similar the retail trade ratios are for the two countries, whether for the countries as a whole or for regions. I shall now continue with the brief:

"As of 1930 for Canada, and 1929 for the United States, the total operating expenses were 24.83 per cent of sales for the United States and 24.01 for Canada, and were 23.38 per cent of the sales for Minnesota and 24.87 per cent for Manitoba. (Fifteenth Census of the U.S., 1930, Washington, 1933, Vol. 1, Part 1, pp. 51, 53; Seventh Census of Canada, 1931, Census of Merchandising and Service Establishments, Retail Trade. Ottawa, 1936, pp. 30-35). We see no need, therefore, for correction of our estimate on this score.

To complete the record, and not because we believe it could in practice have much weight, as far as the prairie provinces are concerned, we mention another possible source of correction of our estimate. In theory, the removal of the tariff, by operating to increase the Canadian supply of export commodities, would tend to raise the prices paid before duty for the former and to lower the prices received for the latter, and would thus tend to make the actual gain to the prairie provinces from tariff removal less than would be indicated by the price differences prevailing while

the tariff was in effect. Since the Canadian output of all of the export products of the Prairie Provinces is but a small fraction of the total world output, and, with the exception of wheat, but a small fraction of the total world imports, of such products, the effect on world prices of such increase in Canadian output as would result from removal of the tariff could not be expected to be substantial. For similar reasons, and I would say even more so, the foreign producers of commodities for which the Canadian market would be increased if the Canadian tariff were removed could not in all probability appreciably raise their ppices because of its removal, since the Canadian market, even in the absence of the tariff, could ordinarily absorb only a small fraction of their total output."

I should add that I would not have to cite the even point/ for theoretical completeness if I had assumed the process of the removal of the tariff to be reciprocal rather than unilateral. If it was reciprocal the export market would be extended at the same time, as for export production/would increase. I continue with the brief.

" We have been engaged so far in making reductions from our estimate to meet what we accept as valid criticisms, and in defending what remains against what we regard as invalid criticisms. We will now proceed to build up our estimate again to more proper proportions: by withdrawing concessions which we deliberately made beforehand, as offsets to any errors in our favour which might be present in our calculations; and by staking out claims on new grounds, not covered in our original presentation.

It has proved to have been a tactical error on our part to concede more than we absolutely knew to be required of us since there has been, as I suppose we

should have anticipated, inadequate appreciation of our generosity. One of our concessions was our acceptance of the absence of an excess of the Canadian over the American price with respect to any commodity as proof for our purposes that there was no tariff burden on the Canadian purchaser as far as that commodity was concerned. But the Canadian tariff does not apply exclusively to imports from the United States; the United States is not the only possible outside source of Canadian purchases; the United States itself, as everyone knows, has a high enough tariff of its own. The full measure of the Canadian tariff burden is represented by the excess of the Canadian prices over the lowest prices available in any country, after allowance for transportation costs. The range of commodities whose prices are higher in the United States than in other countries is a wide one. If demonstration of this were necessary, it should suffice to cite the wide range of commodities which the United States itself, ins pite of its high tariff, imports from other countries, or the equally wide range of commodities which Canada imports from countries other than the United States. The only price-comparisons which were feasible for us, however, were the American prices, and in the absence of any satisfactory mode of calculation of the burden on the Prairie Provinces resulting from the exclusion by the Canadian tariff of imports from countries other than the United States, we omitted this part of the tariff burden from our estimate. We confess we are still unable to find a reasonable method of measuring it, but we suggest that a figure of added cost of $10,000,000 or less than $4 per capita, would be moderate. This would have to cover the added cost because of the tariff, of such commodities as woollen cloth and

and clothing, woollen blankets, cotton fabrics, pottery, glassware, and chinaware, linenware, ---"

COMMISSIONER ANGUS: Is not linen on the free list?

DR. VINER: I use linenware to cover items not necessarily made out of linen. Are all linen products on the free list in Canada? If so I would have to say "linenware other than such as are made from linen."

COMMISSIONER ANGUS: I am sorry.

DR. VINER: I continue.

" ---confectionary, leatherware, many steel products, many chemicals, drugs and toilet articles, mats and carpets, and a host of minor commodities which are individually unimportant but constitute in the aggregate an appreciable fraction of the average family's budget, especially in the cities and towns, and for which the cheapest external source of supply would often be not the United States but the United Kingdom, Germany, Czechoslovakia, Japan, or some other outside country.

In our original estimate, we found a total added cost resulting from the tariff of $110.38 per farm, but we arbitrarily reduced this to $100 to cover any errors in our favour which our estimates may have involved. We now re-incorporate this $10.38 per farm, or $6,900,000 for the Prairie Provinces, in our estimate.

Further to provide offsets against possible errors in our favour in our estimates, we excluded the added cost which we found for some item or items in each of our commodity groups from our calculation of tariff burden. Thus we left out of our calculation the added costs, attributable to the tariff, of automobile trucks, Diesel oil (Manitoba Brief, Part IV, p. 25, Table I); combine harvesters, iron pipe, wire screens, axes, lead arsenate, electric motors, electric light

plant (Table 11, pp. 27-29); insulating board, galvanized roofing, building brick, barn and cellar sash, house windows, doors (Table III, p. 31); laundry stoves, bed springs, electric light bulbs (Table IV, p. 33); chicken feed, oatmeal (Table V, p. 35). "

I may say all these deductions that I show were made deliberately to offset errors. We said we were making them in our original presentation. This is not an insertion after the fact. But we did not emphasize sufficiently perhaps that we were making them. They are all in our original presentation. The brief continues.

" On the basis of the price-differences we found for these commodities and of their place in the farm budget, their inclusion in our original estimate of added farm cost, which would have been fully justified, would have increased that estimate by approximately $6.70 per farm, or $4,000,000 for the Prairie Provinces as a whole. We will later submit a memorandum listing these items in detail, and showing how we reach this figure of $4,000,000 as the tariff cost attributable to these items. We have thus found that provision was made in our original estimate for offsets of about $20,000,000 for possible errors, in our favour, in the estimate.

Our estimates were based on the amount of retail commodity expenditures as of a "normal" year. But added cost to the prairie provinces because of the protective tariff is embodied also in the purchases at wholesale by Prairie Province buyers if for any reason these purchases do not eventually appear as retail commodity sales to Prairie Province buyers. Included in this category would be commodity purchases at wholesale by provincial and local governments, public

utilities and other producers of services for sale as distinguished from commodities, and therefore not included in the retail sales statistics, educational, religious, medical, and charitable institutions, and grain elevators, flour mills, and others operating for export markets, and also wholesale purchases of commodities for their own use by wholesale and retail distributors and their employees. We have no direct means of estimating the tariff burden associated with purchases at wholesale by Prairie Province buyers which do not eventually appear as retail commodity sales to Prairie Province buyers. That the amount of added cost on this account would not be negligible is indicated, however, by the fact that the provincial government of Manitoba, alone, in the fiscal year, 1938, purchased at wholesale over one million dollars of supplies of various kinds, practically all of them of a kind dutiable upon import into Canada, and most of them probably higher in price because of the tariff. In the three Prairie Provinces the purchases at wholesale of materials and supplies by provincial and local governments, by public utilities, by producers for export, by religious, charitable, and educational institutions, and by individuals for their own use, would certainly amount in a normal year to at least $25,000,000, and may conceivably reach $50,000,000 or more. If we take the lower figure, and apply to it the ratio of added cost in connection with retail commodity sales to normal amount of retail commodity sales as here estimated, or 7.3 per cent, we obtain approximately $2,000,000 as an estimate of tariff burden in connection with purchases at wholesale.

It should be noted also that even where Canadian prices are lower than the prices prevailing in other

countries, it does not necessarily follow that no tariff burden is embodied in these prices. It is possible, for instance, that the Prairie Provinces may obtain some agricultural implements from central Canada at lower prices than they could be purchased at from elsewhere even if no tariff were in the way."

In other words it is possible the prices of some Canadian agricultural implements are lower now than the prices of similar implements anywhere else in the world. I continue:

"But the prices of these Canadian agricultural implements may nevertheless be higher, because of tariff-enhanced prices of machinery or equipment entering into their costs of production, than they would be if there were no tariff. Because of the impossibility of making a reasonable estimate of the importance of this concealed element of tariff burden, we make no addition to our estimate on this score, although we do not think that it is negligible.

We refrain also from citing as a tariff burden, not because it is unreal, but because a money figure cannot possibly be put on it, the loss incurred by Prairie Province consumers from the change in the apportionment of their expenditures as between different commodities and services forced upon them by the higher prices which the tariff protected commodities command. If because of protection on commodity A some consumers turn to commodity B which can be bought as cheaply in Canada as elsewhere but which they would not have chosen if commodity A were available at a free trade price, our method of estimating tariff burden would reveal no burden on these consumers, although a very real one was there.

From our original estimate of $58,000,000 as the

"tariff burden in a year of normal expenditures on the people of the prairie provinces, we have subtracted approximately $33,000,000 in correction of errors in our favour. We have replaced $20,000,000 of this deduction, because of deliberate omissions from our originad estimate to take care of possible errors in our favour, and $2,000,000 has been added to our estimate to provide for tariff burden in connection with purchases at wholesale. We therefore obtain, after making all corrections for which we can find a reasonable basis, $47,000,000 as our final estimate of the added cost to the people of the prairie provinces in a year of normal expenditures resulting from the price-enhancement brought about by the Canadian protective tariff.

The question has been raised as to just how this estimate can be brought to bear directly upon the questions properly before this Commission. The case of the prairie province governments rests primarily on the evidence which has been presented by them with reference to their financial needs and their financial resources. The tariff brief, as also the monetary brief of Manitoba, are presented as a partial explanation of the causes of their financial difficulties, causes beyond their control but not wholly beyond the control of the Dominion Government.

Finally, to relate our estimate of tariff burden more directly to the state of the public finances of the prairie provinces, we find, from the best data available, that in 1935 the total tax revenues of the prairie province governments, provincial and local, were in the neighbourhood of $60,000,000. (For 1935, the latest year available, the tax revenues of all prairie province municipalities amounted to $44,293,000 -

Canada Year Book, 1938, p. 881 --. No data are given for the for the provincial government tax revenues for 1935, but for the fiscal year 1936 the total tax revenues for 1935, but for the fiscal year 1936 the total tax revenues of the prairie province provincial governments amounted to $18,137,000 - Canada Year Book, 1938, p. 871)."

There are some details as to how I get the $60,000,000. The figures for provincial and local for the same year were not available. If the data were available for one year for one, they were not available for that year for the other.

I continue:

"For the year 1935 the income of the people of the prairie provinces has been estimated at $546,000,000. The provincial and municipal tax revenues were therefore approximately 11 per cent of the regional income. If this may be taken to be a fairly stable ratio of tax revenues to regional income in the absence of changes in the tax system, then relief of the people of the prairie provinces from a tariff burden of $47,000,000 per year would result in an annual increase in the tax revenues of the provincial and municipal governments, without increase of tax rates, of approximately $5,000,000 a year. In addition, there would be financial benefits to these governments which would probably also be substantial, from reduced need for social service expenditures and from lower prices on equipment and supplies purchased by them."

COMMISSIONER ANGUS: You say that the tariff burden is $47,000,000, and on page 3 you say the prairie provinces bear a disproportionate share of the burdens which the tariff distributes. What would you consider a proportionate share?

DR. VINER: I would put it this way: If Canada were substantially united regionally as well as otherwise in feeling that while the tariff was a burden on the economy as a whole, it accomplished political purposes or social purposes which justified the burden, then I say the burden was evenly distributed if it were regionally equal per capita or as a percentage of income. There would not be any one criterion but distribution that did not seriously violate any plausible criterion like per capita or like percentage of income I would accept as a proportionate bearing of that burden.

In fact, if the thing were to be carried to so scientific a level as to attempt to relate the proprtion equitably I would work on the criteria of proper distribution, and I would use several. No one of them should be permitted to dominate; no one would be enough. Per capita would not deal sufficiently with ability to pay. I would use several criteria.

COMMISSIONER ANGUS: There would be some deduction made from the $47,000,000 the actual burden, in order to get the disproportion.

DR. VINER: Yes. The $47,000,000 is not a calculation of the extra burden borne by the prairie provinces as compared with what other provinces bear. It is a calcualation of the burden, the total burden.

COMMISSIONER ANGUS: Which would be the fairer to use, the $47,000,000 which is a calculation of the burden or the lesser sum which would be the calcualtion of the extra burden? Which would be the fairer to use in computing the sum?

DR. VINER: To answer that I would have to answer the question as to political objective which I am not competent to answer. That is, do the prairie provinces now, or did they in the recent past feel the tariff was a part of their policy as well? If they recognize it as proper national policy of whose cost they must bear their share, then I would use

the lesser amount. If they feel sure that it is a burden imposed upon them by a majority external to their province then I would use the larger figure. As to which of these one should choose, I obviously am not in a position to answer.

HON. MR. BRACKEN: Maybe you had better leave that to the provincial governments.

DR. VINER: Yes.

COMMISSIONER ANGUS: I was going to ask you if you would use the Dominion elections as criteria.

DR. VINER: I would, myself, on moral grounds attach to the prairie provinces accertain amount of responsibility for the tariff applied. I remember when there used to be a Canadian council on agriculture. I don't remember much about it but I do remember that at one time they passed a resolution urging farmers not to ask for tariffs on raspberries and thus weaken morally their entire case. A region should not ask for minor tariff concessions, if their is opposed to the tariff in general.

Now, I recall that in the prairie provinces farmers for the sake of a duty on artichokes, or on other grounds have tolerated the duty on agricultural implements. That is an issue on which economists know a great deal about the history, but have no tools for evaluating. If Canadians want, say, what some call an "integrated" economy it means some of them are forced to buy at high prices what others produce under difficult conditions.

If the prairie provinces share in the national objectives they ought to share the cost. And I do not know what they were voting for when they voted for the tariff; whether they voted for national objectives or whether they accepted the arguments given to them that the tariff was adding even the wheat farmer.

COMMISSIONER ANGUS: It comes to this that as far as the

prairies' share in the national objective of the tariff is concerned, there would be some reduction from the $47,000,000.

DR. VINER: Yes.

COMMISSIONER ANGUS: And the provincial government is going to give us the estimate as to how far the prairies did share in that national objective. Is that it?

HON. MR. BRACKEN: Oh, no. We will say "zero" to that.

DR. VINER: If I accept that as the answer the deduction would be zero.

COMMISSIONER DAFOE: This $47,000,000 is the prairies' share of the tariff burden, you say. In any kind of a tariff there will be a percentage of that which will have to be borne.

DR. VINER: By the prairie provinces, yes, if they consumed any of the protected commodities.

COMMISSIONER DAFOE: Do you consider that there is a percentage of tariff burden resting on the central provinces?

DR. VINER: I think so, yes.

COMMISSIONER DAFOE: Your calculation, which proceeds by different methods, arrives at different ends from the celebrated calculation of Dr. Rogers. He worked out a loss to the prairie provinces, a definite loss on the tariff, of about $55,000,000 and a gain to the central provinces of $82,000,000.

DR. VINER: Yes.

COMMISSIONER DAFOE: You think there is a tariff burden on the central provinces, too. That protective tariff may depress the whole national income, and depress the west more than the central provinces.

DR. VINER: In a sort of way. If one were holding any kind of a brief one could cite Professor Roger's calculation in support of our present position. I refrain from doing so because I cannot accept a single step in his calculations;

and although they would give us the figure that we would like to use, there are annumber of points -- I do not know whether this is relevant here, but I think it is. The methods we used were the best. We selected the best method of those we found available. I know the alternatives to this method, and the alternative which is so commonly used I believe is of absolutely no validity. Its results are absolutely not useable for this particular purpose. I am prepared to go on, if you care to, and tell you why ours is a different calculation, and why although it produced substantially the same results -- I regard it as an unfortunate coincidence that a faulty method and a sound method should produce the same results. I may say that method takes no account of the burden on the Dominion. It is inherent in the Rogers method to leave the country where it would be if there were no net burden. He uses the same figure in his method for gains and for costs. Now, I say there at once you have a vital flaw in that method.

COMMISSIONER DAFOE: Do you say it is more important to determine whether a protective tariff penalizes some parts of the country and benefits others or whether it is, upon the whole, a national disability. A greater proportion of it falls on certain sections than on others. An opinion by you on that point would be very interesting.

DR. VINER: I have avoided saying anything on it, although I have very firm convictions on the question. Taking it from the long run point of view a tariff confers national burdens. It confers burdens by leading to a diversion of productive resources from those fields in which they can obtain the higher rates, of real earnings, to others in which they can enter on a competitive basis only because an artificially high price has been created for the consumer out of which the producers are supported.

That, of course, is familiar ground and old ground. The economists have always known it, and they have never been

able fully to persuade the general public of it. On the other hand, when I talk of the tariff burden on the prairie provinces and in terms of what will happen with the removal of the tariff, I do not mean an overnight removal. It is probably true that some of the burden that is imposed by a tariff becomes perpetual even though you remove the tariff. Damages have been done for which there never will be redress. Also, a tariff is not like an overcoat which you can put on to protect you against the cold and readily take off when the sun comes out. A better analogy would be that of hair and skin of the human being that he acquires partly from his ancestors and partly as a gradual accumulation as he grows older, and which he cannot get rid of except by a very gradual and a very gentle surgical process.

If I might go on with that [illegible] for the prairie provinces I would say the tariff is a coat of tar and feathers, except that it is too generous and too kind; because with some effort on your own part you can in time get rid of the tar and feathers; whereas it may be the prairie provinces have no means of getting rid of their tariff burden. The point of all this is, once you have a tariff I do not think it is wise, I do not think it is proper to advocate drastic unilateral removals. It has to be a carefully planned policy, although it can go at a much faster rate and go with two-way flow of benefits, double flow of benefits, if done reciprocally. If when you are lowering your own restrictions on imports you are also having opened to you increased markets abroad in a process of mutual bargaining, that is what happens. But I regard a tariff for Canada as a burden. I say the burden has been a product of a process of growth. Sometimes the burden shrinks; but it is not always necessarily intensified, I think in part it is shrinking. If the tariff were left alone now I think the

burden would shrink in part because the Canadian manufacturing industry is in part becoming independent of tariff protection. An increasing extent of it would survive, particularly if the burdens on it from the tariff were removed. So that I believe on the whole the problem of adjustment of the tariff would be less now in Canada than it would have been in 19[illegible].

But, nevertheless, I do not wish to be understood either as an economist or as a friend of Canada to be advocating overnight drastic reduction of it; although I do think very firmly it is certainly in the interest of Canada to plan a gradual and substantial removal of burdens on the export industries of Canada, and to continue to rely on the export industries as the basic sources of the national income.

COMMISSIONER DAFOE: You will agree with Premier MacDonald that the consequences of the problem have sunk deep into the tax system and it is not very easy to remove them.

DR. VINER: No, it is not very easy to remove them; and I am conservative enough to be a believer in vested interests to this extent that once when reasonable expectations have been established you shall not violate them without compensation, which is again a reason why you have to move slowly and carefully on that principle. I wish to repeat that the rate at which you can safely move in that direction is greater if you can manage to move on a bilateral and mutual basis, and the benefit from each reduction is doubled as well.

COMMISSIONER DAFOE: In the tariff presentations made to us there has been a general disinclination to do what Manitoba has attempted to do, to make an estimate. Most of the representations have been that the difficulties in calcualting are insurmountable. We have had no presentation

put to us which embodies the argument which was once general, and may as well be advanced -- I imagine it is advanced in certain quarters -- that our protective system is mutually advantageous to every part of Canada. There has been a general recognition that the incidence of it has been either beneficial to one province, more beneficial to one than to another, or more disastrous to one section than to another, and a recognition too, that it involves some considerations of readjustment compensation.

Now, I understand that the effect of the Manitoba representations is not one that challenges the right of Ottawa to make any tariff arrangement which, in the judgment of a majority of the representatives of the Canadian people, is desirable when put in the national interest, and that there is no suggestion that the Ottawa government is accountable to provincial governments as such, but that the definite affects on taxable capacity, the income of districts that have been injuriously affected by the tariff or have not shared proportionately in the advantages of the tariff are proper subjects for adjustment and appraisment in a reconstitution of responsibilities. That is a fair statement of the attitude and policy embodied in the tariff presentation made by the Manitoba Government.

DR. VINER: It corresponds very closely to the instructions I received, that it was not the function of the representatives of Manitoba to instruct the federal government or even to advise the federal government on what would be the proper policy on national matters. My sole assignment was to examine the bearing, direct or indirect on the financial positions of the prairie provinces of the national tariff policy; and if I have given any implication that I may not be enthusiastic about the value of that national policy for Canada as a whole I did nm the provonation of questions from the commissioners. I restrained

myself, although with difficulty, from [illegible] it on my own initiative.

COMMISSIONER DAFOE: Would a commissioner be indiscreet if he provoked you a little further? The view as it appears, and of course it is implicit behind the whole fiscal policy of Canada -- some of our own students have recognized it without necessarily proving it -- [illegible] that with all its possible products we would not have [illegible] Canada unless we had an integration by a combined protective policy plus a railway policy, into which it really tied; that the two objectives were forwarded by a policy of protection plus a policy of east and west railway building.

DR. VINER: I would question that very seriously. I do not think the British Empire was in danger until it began to try to acquire quid pro quo reasons for remaining a unit. I do not think Australia was made more of a unity by the mere fact of national unity when they were brought together under a national tariff. There have since then, as you know, been difficulties. I think it would have been an interesting experiment to see whether you could not maintain a nation without using the device of the tariff. I do hot think it is by any means clear that tariffs unite people and that so-called economic integration means national unity. It means a nation is faced with constant regional recriminations and a comparing of benefits and disadvantages.

As for the railways, I do not know just what the great advantage was to Canada from having a connection with the prairie provinces by a railway north of Lake Superior; but I can see there certain sentimental reasons which I would respect. I do not believe that the railroad problem can be explained solely in terms of rational decisions with respect to economic needs on the basis of a united country. Again, the over-optimism that was prevalent politically

was prevalent in the railway field, and I would look at the railway problem as basically, how can you cure the results of a serious historical mistake. I am not sure that Canada would have a railroad problem, if even in terms of pre-depression traffic, her system had not been over-built. As a matter of fact the American nation has a system that is too large for its present volume of business, but I am not clear their answer would be in agreement with that. I am not clear that it was too large for the business originally, but it is too large for the volume of business moving today. But, Canada has too large a railway system, and that was an historical mistake. I do not think it's relationship to the tariff is very close, though one of the arguments I find people citing is the alleged transportation benefits offsetting the tariff burdens. A good deal of the difficulties of the railways is due to the tariff itself. In so far as the tariff impairs national real income it thereby reduces traffic, and the railroads themselves bear a heavy tariff burden in the supplies, in the materials, in the equipment which they have to use, and that over the years, although they may have received special tariff terms, can very well have amounted to an appreciable sum per annum.

I think that I would accept without hesitation the argument that Canada has certain industries as a result of the tariff, which it would not have had otherwise. But what I say needs to be proven is that advantage comes to the national income by these industries which have been set up. I say that the opinions of economists may vary with regard to that. I cannot speak with any authority on the weight that should be attached to it.

There is one sort of argument that is put forward, that the Canadian ought to feel happier when he is consuming,

let us say, a Canadian apple rather than an American apple. That sort of satisfaction, I think, plays an important role in the history of tariffs. Whether we in sober objective discussion ought to attach a good deal of weight to it is a question on which I refrain from committing myself.

COMMISSIONER MACKAY: You have attempted here to make an estimate of the burden on the people of the prairie provinces. You do not suggest there is a possibility of assessing the monetary burden on the prairie region?

DR. VINER: No, I do not do that because, let us suppose I apply my present feeling as to the future of the prairie provinces if nothing special is done. What was the burden per year? Up to 1935 or 1936 the income of the prairie provinces was estimated at some $540,000,000 a year. I would say that if nothing is done for the prairie provinces it is not an altogether absurd proposition to say that the doing of nothing -- not merely re the tariff, but re other things as well -- would mean a loss to that area of $540,000,000, or in other words that area will cease to be, under the present set up, a functioning economic area. It is sick economically, and I think it is sick of a disease for which there is no adequate internal cure except possibly a great shrinkage of population; and I suspect a very extensive economic shrinkage of population would increase the difficulties rather than remove them. As to that there is room for doubt. There is not a problem there of selecting the best lands. There is a problem of working a cereal economy on a profitable basis so that the costs do not eat up the gross income. I would say that to determine the burden of the tariff in the [illegible] would have to estimate how much larger would the population have been, and how much greater would their output have been, and then you get a rather interesting figure, because if it is true that without the tariff and other burdens the prairie provinces would have

produced a lot more wheat it would have brought the world price down, so that some of the weight I would give to the increase in physical output would be lost in value terms. I am speaking there again without any claims of competence. All agricultural economists on the prairie that I have talked to tell me that without a change in method, which they think is not at all in sight, such as heavy fertilization, there would not be very much expansion in acreage beyond what has existed, and there would not be much expansion in yield by change of method under the inducement of higher prices, so in the main the prairie provinces would have spent the higher income in either more leisure or in other activities and not in growing grain.

COMMISSIONER MACKAY: I suppose the reason for that is the amount of land available and the fact they have developed a very high quality of wheat in any case.

DR. VINER: I think so.

CHAIRMAN: We shall adjourn now and resume at 2.30.

(The Commission resumed at 1.00 P.M. until 2.30 P.M.)

(Page 10,585 follows)

AFTERNOON SESSION

The Commission resumed at 2.30 p.m.

THE CHAIRMAN: You have some questions to ask, Mr. St. Laurent?

MR. ST. LAURENT: Yes, there are a few points I should like to have further elucidated for the purpose of a better understanding of Dr. Viner's presentation.

BY MR. ST. LAURENT:

Q. I understand, Dr. Viner, that this is a very serious attempt to measure the extent of the tariff burden on the Prairie Provinces? A. Yes.

Q. And that that is not a simple matter. It is one with which economists have wrestled for over a century, as you yourself point out on page 4 of your presentation? A. Yes.

Q. And you have also said that there are great practical obstacles in getting a reliable measurement of the burden in dollars and cents? A. Yes.

Q. But that a roughly approximate measure appears better than no measure at all? A. That is right.

Q. And you have adopted as the measure which appears to you to offer the best avenue of approach a comparison of commodity retail prices in the region in question and similar prices just across the border in the United States? A. That is right.

Q. And of course we must take it that there was a very sincere endeavour to make a proper sample and to use a proper basis of comparison? A. That is right.

Q. But that notwithstanding that, upon criticism being made of certain specific items and upon a re-checking being made, it was found that a calculation that amounted originally to $58,000,000 was subject to reductions to the extent of about $33,000,000? A. I would not say that that was quite fair. The calculation originally accounted for $78,000,000 and the reduction to $33,000,000. We said: We may be making

a mistake; let us give the other side a concession. And so we deliberately made this reduction of $20,000,000. That was the procedure.

Q. I was just going to suggest that the calculation arrived at being $58,000,000, there were reductions to the extent of $33,000,000 which it appeared proper to make, and then where were additions of matters which you had not attempted to calculate before, which added some $22,000,000?A.That is not quite correct. Part of that was correctly calculated. We obtained a figure of $110.38. We said, let us take it as $100.00, in case we made any errors. We reached the figure of $110.38 in our original Manitoba brief, but took it at $100.00, and Mr. Taylor saw that and said, "They have reached a figure of $110.38 but they use $100.00." At page 22 of Part IV of the original Brief of Manitoba we say under the heading of "Summary of Results":

> "The following tabulation brings together the results of our detailed calculations by commodity groups of the estimated increased cost per farm in western Canada due to the tariff on imports from the United States."

Then there is a list of the items, making a total of $110.38. Then we go on to say:

> "We have estimated the added cost per farm per year as roughly $100.00."

Q. Just as a matter of ready reference, the Manitoba Brief was submitted in Parts, and I do not think the Parts are in consecutive paging, and the passage you have just quoted is found on page 22 of Part IV of the Brief? A. Yes.

Q. Well then, Dr. Viner, that will be approximately 10 per cent more than the $58,000,000? A. Yes. It amounted to $6,000,000 I think for the Prairie Provinces as a whole. But then there were items, which we had already calculated beforehand but did not include, amounting to $4,000,000, and

to give leeway in each group we left out certain commodities. But we have in the original Brief the added cost. So that is another $4,000,000.

Q. What I wanted to point to at the moment was that from partial a/calculation of perhaps between $63,000,000 and $64,000,000, there were reductions which in your revision amounted to roughly $33,000,000?A.That is right.

Q. Then on the total calculation, because of the $110.38 instead of $100.00, and because of other differences as to which no extensions have been made, and because of the addition of wholesale purchases by governments and institutions, you added on the other side something like $22,000,000? A. $22,000,000.

Q. Making a difference of roughly $11,000,000 in the calculation? A. A net correction of $11,000,000.

Q. Yes, and I suppose that it is because of the possibility of there being such variations in the calculation that it is submitted as a rough estimate? A. Yes, we do not make high claims for its degree of reliability. I think the estimate could be improved if more time were put on the data, and if certain data were obtainable. I must say that while I still think it is subject to a wide margin of error, I would be very much interested to see anybody pull it down lower than I have pulled it because I have gone through it trying to take out anything to which reasonable objection could be made. The figure is big enough even if it were forty.

Q. I must confess I am going to disappoint you, because I am not going to attempt to pull it down. I just want to understand it. Now the volume of correction that any error introduces in it is because of the very large factor by which the small figures have to be multiplied to get the results. A. Would you mind repeating that?

Q. The extent to which any correction changes the total figure is because of the very large factor by which they ascertained figures are multiplied? A. No, that is not correct because our major corrections were made on gross data -- not corrections for sales tax and customs duties, pplied to aggregate sales in the Prairie Provinces. So there is no multiplier there. What I did was to apply the average rate throughout Canada to sales in the Prairie Provinces.

Q. Is it not explained on page 8 of your Brief, where you say "For each group (that is, for each group of expenditure) we then multiplied this computed excess cost of items found to be more expensive in Canada by the ratio of the total expenditures for the group as a whole to the total expenditures of items for which price comparisons had been made."

A. Yes, we built up that way, but I built down to make adjustments the other way. I did not multiply. Except with reference to three commodity price mistakes, what I say in connection with this is correct.

Q. Just to see if I correctly understand the passage from page 8 of your Brief which I have just read, and applying it, for instance, to the Table on page33 of Part IV of the Manitoba Brief, there was there found to be an estimated total added cost of $2.24 on a total expenditure of $16.00?

A. That is right.

Q. And that was applied proportionately to $90.00? A. That is right.

Q. Making a a multiplication of about five and two-thirds times? A. That is right.

Q. And the amount arrived at, ~~is~~ $12.60, is multiplied --

A. By 580,000.

Q. By 580,000, or the number of farms and number of urban units which entered into the calculation? A. That is right.

Q. So that the ascertained figure in the original

estimate was multiplied by about 3,000,000? A. Yes, that is right.

Q. So of course any variation there brings about a very large money reduction from the total? A. Yes, but let me point out there again that the budget itself is an indication of the process of division. I could, by working from the gross figures, get a divider of as large proportions as your multiplier; and the budget we used was based on the Searle figures and the figures of the Bureau of Statistics, based on samples. I am not multiplying from a single farm, but from a representative farm.

Q. That was the point I was next coming to; the normal farm budget was tested, I understand, by the retail commodity sales as reported by the Dominion Bureau of Statistics for the years 1929 and 1930? A. Yes.

Q. Which gave an average of $620,000,000? A. No, a total.

Q. I mean an average for the two years? A. Yes, that is right.

Q. And the average for the two years was $620,000,000?

A. That is right.

Q. And that is stated in the Brief to be one prosperous year and one year of depression? A. That is right.

Q. But looking at the table in the Canada Year Book for 1938, at page 61, I find that for 1929-1930 the average might possibly be a little higher than $620,000,000. The high point for the Prairie Provinces is 1928, when it went to $700,000,000, having been down in 1925 to $510,000,000. The year 1928 appears to have been the all-time high, with $700,000,000. In 1929 it drops down to $690,000,000; in 1931 to about $425,000,000; in 1932 to about $370,000,000, and in 1933 it was an all-time low of about $335,000,000. So that although 1930 was one of the years of depression it is very considerably above the average for the fifteen year period that the table shows?

A. Oh yes.

Q. And even 1931 is in the five highest years of the fifteen year period? A. Yes.

Q. Well, would you consider that that would be normal for a substantial period of time, or would it not be high if it is in the highest three years, if even the low is in the highest three years? A. I do not know what "normal" means. I was careful to put it in quotes. I do not take 1934 or 1935 figures because they would reflect reduced purchasing power owing to drought and abnormally low prices for wheat. And remember I made the point this morning that if you get the income down to zero you get no tariff burden at all by my method of calculation. In justification of our selection of a normal year, since we arrived in Ottawa I have come across a Bulletin of the Dominion Bureau of Statistics, headed "Canadian Farm Expenditures, 1934" from which I quote this paragraph:

> "Since 1934 was a year in which incomes were unusually low, estimates were requested for expenditures on such items as clothing, farm equipment, etc., that are postponed as lowg as possible under such conditions. These supplementary estimates apply to an earlier year, presumably in the 1927-1929 period, when incomes might be considered as'normal'."

And they place quotes around the word 'normal'. I think'normal' in quotes means that you escape from a current figure which for certain reasons would distort your results. It is true that if the years from 1925 or 1926 up to 1930 are to be taken as abnormally good for the Prairie Provinces, then our figure of $47,000,000 of tariff burden is too high.

Q. I am not suggesting that in fact it is. I am just suggesting that the result would vary according to what period was taken as being a proper income period. A. Yes,

and I must say that it gave us some thought as to what we should do. We might have taken a broader period, but in the form in which the data were available to us, that would have meant a substantial increase in the labours of calculation without any clear indication of profit. We would have had different results had we taken any other two years. No other two years would have produced precisely these results.

Q. That is the point I was making. I have not the information to say to these gentlemen what period they should select, and all I am trying to do is th point out that the period selected as being one that would represent normal income affects the calculation? A. Yes.

Q. Now this calculation is worked out on a retail commodity sale basis of $1,075 per family unit? A. Yes.

Q. And the figures were sought to represent what would be the kind of commodities that $1,075 on a farm would go into during that period? A. Yes.

Q. A similar figure was used for the average urban unit?

A. Yes.

Q. Now, would not the average urban unit that was able to spend $1,075 on retail commodities have to have a budget substantially higher than $1,075? A. So would the farmer.

Q. So would the farmer, possibly not in money income, but in real income? A. No, in money income. That is not the farmer's complete budget. We did not take in his payment of taxes, which would represent from 10 to 15 per cent of his money income. We did not take in what he paid for medical services or for newspapers.

Q. That was just the point I wished to suggest. There would have to be added to get at the actual expenditures per year somewhere between 10 and 15 per cent for taxes, would there not? A. No. In so far as those taxes that are paid to the local government are concerned, they have already appeared in the income expenditure on local commodities.

Taxes paid to the federal government, yes, if the federal government does not spend the money there.

Q. And even the amount paid to the local government has to be provided if there is to be $1,075 left for expenditures on retail commodities? A. Yes.

Q. That would be something between 10 and 15 per cent?

A. I think that is what the figure runs to.

Q. For 1935 you calculate it at 11 per cent for provincial taxation? A. Tax revenues, yes, as a percentage of income. But this $1,075 is not income. The income might be zero. This $1,075 includes business expenditures for the farmer, production expenditures. So you cannot compare that with the income figure. The income figure might be zero. For Saskatchewan the farm income was negative. It was minus something in one year. per farm, according to the studies of one of the staff of the Commission. But retail sales cannot be negative.

Q. No, but if there are to be retail sales to the urban population, there has got to be something with which to pay for them, for they are not all going to be sales on credit?

A. No, not all of them.

Q. And the man living in town who can buy $1,075 worth of commodities at retail has to have $1,075 or be obliged to pledge his credit to that extent, has he not? A. He does not have to have $1,075 in income or to pledge his credit for that. He might be trenching on his previous savings.

Q. But there would have to be expended by him on retail commodities $1,075? A. Per family.

Q. And also something would have to be expended, which might be 10 to 15 per cent, for taxes? A. I do not see why. I cannot answer that question. It may be 10 or 15 per cent applied to the urban population, but I simply cannot say without looking into it. I am willing however to assume for the moment that that is so.

Q. But there would be some amount for taxation?

A. Yes, that is so.

Q. And there would be for the average urban dweller some expenditure for the household? A. You mean rent?

Q. Rent. A. Yes.

Q. You would be prepared to suggest what figure or what percentage that might be? A. Again, just for discussion purposes, I would say 20 per cent probably.

Q. Then it would be something like a couple of hundred dollars for a man who is spending $1,000 on commodities?

A. Yes, assuming that he does not own his home.

Q. And in Canadian cities that is in fact true of the majority of the city dwellers, is it not? A. You mean that they do or do not own their homes?

Q. That they do not own their homes. I think the Commission has had statistical data on that point. A. I know that would be true of large cities, but I would not know whether it would be true of Saskatchewan or Alberta.

Q. I think the Commission has received sufficient information on that point. Then there would also be some expenditure for medical services? A. Yes.

Q. I assume that on the average there would also be some expenditure for insurance and other forms of savings? A. Yes.

Q. And some expenditure for amusements and recreation?

A. Yes.

Q. So that the amount that would be spent by a family unit with an expenditure of $1,075 on retail commodities might be very much more than that when you take in all these other items. Would you venture to say how much more it might be?

A. Expenditures per family unit on consumers' goods? Remember that this figure of $1,075 per farm is not income expenditure. It is income, plus production expenditures. It includes business expenditures. It is true that agriculture is distinct from most other industries in that business expenditures are made retail and appear in retail

commodity sales. That is not true of others. But in the urban retail figures there are production expenditures. The working man buys his tools and his overalls at the retail shop, so even in the city there is probably an appreciable fraction of retail expenditures which are not income expenditures.

Q. But the figure of $1,075 is used for the urban unit as well as for the rural unit? A. Yes.

Q. And to have that much to expend on retail commodities would usually involve the ability to spend perhaps seven or eight hundred dollars more on other things? A. That would be 70 per cent more?

Q. Yes. A. I would not like to say. That sounds rather high to me, but I am not sure. Perhaps 20 per cent for rent, but I do not see what the other 50 per cent would be for.

Q. Do you think it might go to 30 per cent? A. We did not use an urban budget because we found no data; no study had been made of it and consequently I would find it rather difficult to construct a budget on my feet when I was not able to construct one in the total absence of relevant data. I wish you had such a budget for me. We would have been glad to use it, instead of using a presumptive figure applied to the urban unit.

Q. I was merely going to suggest that if the expenditure of $1,075 of an urban budget for retail commodities was the one that was assumed, it would involve the ability of this urban unit to expend something over $1,500 per year? A. Again you are making a 50 per cent addition, and I would not like to answer that offhand. That might be 20 per cent too high for all I know. You are suggesting that the average family in the cities has an income of at least 50 per cent more than that figure of $1,075. I want to make it quite clear that no such implication can be drawn from my figures.

Q. Whether it be real income or not he would have a capacity of an outgo of something substantially over $1,075 a year? A. Well, I must say as to the manner of discussing these matters, when we try to be objective we can answer much more intelligently if we know what the object of the question is, and I think your question is leading to an attempt to show that we have an inflated urban budget. My answer to that is that it does not matter to me because we use the best available data. You cannot get an income figure from our budget figure, except for the farmer. You can get an approximation to cash income if you separate the overalls into two classes, the overalls that are worn as clothing and the overalls that are worn at work, and the same with shoes. Remember that any working expenses, non-income expenditures that take place and appear in retail sales are to be deducted from our $1,075 to calculate income. Expenditures from past savings or expenditures from what you borrow without the intention to repay are not income in the sense in which income has been figured elsewhere.

Q. I am not suggesting that it is income, but I am suggesting that to properly use the figure of $1,075 for the expenditure of the urban unit, each urban unit would require the capacity to pay or pledge credit for something very substantially over $1,075, and my purpose is precisely to suggest that $1,075 is probably too high a figure to use for the commodity purchases of the average urban dweller. A. But you must use that figure or else you are rejecting what are practically the official census figures of retail sales in the Prairie Provinces, reported by the Bureau of Statistics. We have no other material to work with. In 1929-1930 the average amount of reported retail sales in the Prairie Provinces was over $620,000,000 a year. And your point would be that $1,075 is too much to assume for the urban budget? Q. Yes. A. That $1,075 was based on the Searles Bureau

material, which is as good an authority as exists, plus the work of Dominion farm economists with respect to the three Prairie Provinces. I do not think you can change that figure very much for 1929-1930 in either direction. We have reached the figure of $1,075 for the farm, and we have applied the remainder to the non-farm.

Q. But the figure is used not only for 1929-1930, but it is also used as the proper figure for the "normal" period, and I put normal in quotes? A. Yes. That would have to be written down if you were going to use the figures of 1936. We have never disputed that. We have stated that we use 1929-1930 retail sales as the basis of our calculations, and that in a depression year of low prices and poor crops the tariff burden as measured by the excess of what would have been paid in the absence of the tariff is not nearly as large, and it has to be cut down.

Q. From your knowledge of average urban conditions, would not the expenditure of $1,075 for retail commodities appear to be high? A. I do not know enough about that to make my answer worth very much one way or the other. But looking through the Canadian Production Statistics and Employment Statistics for the depression years on the whole, I recall that the employee in the Prairie Provinces working for pay in industry gets on the average from ninety to one hundred dollars a month. In this table at page 23A of my presentation here to-day, let us see what we have found. It gives the employees, salaries and wages paid in the so-called manufacturing industries of the Prairie Provinces for 1936, and in line 3 from the bottom, I see that the total salaries and wages of all industries in the prairie provinces amounted to $43,729,000, and the number of employees was 41,681. So you have there an average income of $1,000 a year of wages paid to employees. Now there will be more than one person earning wages per family; it would be one plus rather than

one minus. So for the working classes alone, the wage-earning and salaried classes you get something over $1,000 of wage income per employed individual, and not per family. You have also all the additional population, like merchants, distributors and wholesalers, office superintendents, accountants, doctors and lawyers who in a normal year would probably get considerably more than $1,000 of income.

Q. I think on that point we have now received sufficient explanation to allow the Commissioners to appreciate the possibility of error or approximation in the figures you have submitted. A. Oh yes, there is that possibility in both directions.

(Page 10610 follows.)

Q. As arising from one of the answers you gave to the Commissioners, I understood you to say that at the present time the situation was such that not very much could be done with the tariff to take care of the sick patient. A. That nothing very much could be done through the tariff?

Q. I understood you to say that whatever could be done through the tariff would be ineffectual as a means of taking care of the present situation. A. You mean, as a means of meeting it immediately?

Q. Yes. A. Yes. The patient is suffering from fever and needs long and protracted treatment, but the rest of the country must not be smashed in the process of trying to cure him. So that the program in that respect would have to be careful, cautious and gradual. But that ought not to be taken to mean that, therefore, there is no hope in that direction, because that is one of the few avenues along which there is hope.

Q. And you suggest that the alternative would be -- A. If Canada were to go about tariff reform in a sober, careful and sane manner, relief to the prairies would not be rapid.

Q. And for a long time, I take it, it would be insufficient to take care of present conditions? A. Yes. that is, fully to take care of them. But what do you mean by "a long time" ?

Q. Well, several years. A. Oh, yes, several years. In fact I should make it longer than that.

Q. I understood you to indicate two possible alternatives, one of them being, if cereal agriculture is to continue to the extent to which it does prevail, that there should be international arrangements designed to secure

additional markets. A. I suggest that Canada should feel obliged to seek them. Of course, one is forecasting here, and it may be that the events of history will take a turn different from anythihg that seems to be indicated at the present time, and countries may voluntarily open their markets. But, I suggest, Canada should not count upon that. Rather, Canada should do whatever she finds by experimentation that it is possible to do to improve the situation internationally.

Q. And if that cannot be done there will have to be some alteration in the production of the prairies? A. Well, the alteration will involve the supporting of from one to one and a half millions of people out of government funds, hoping that they will not deteriorate socially and morally during the process. There is no reasonable alternative for that area apart from what they are doing now. No one has found such an alternative. The price of wheat is now about 40 cents on the farm and yet, as far as I have been able to ascertain, the Canadian farmers are not flying to other products. They have none to fly to.. That statement, I think, is substantially true. So that the problem involves the fortunes of two and a half millions in a specialized region carrying on the production of cereals, people who in that area produce practically nothing but cereals. That statement is, of course, subject to certain qualifications. And if cereals are out as an available crop, the Canadian problem is what to do with these two and a half million people.

Q. But cereals would be out only for a certain proportion of the people there. There would still be requirements for a certain quantity of cereals. A. Yes.

Q. Production, to the extent which a good year makes possible, would seem to be production that cannot be

marketed under existing conditions, and you see no alternative but the seeking of markets for that surplus? A. The markets exist, but by artificial methods they have been closed to the Canadian farmer.

Q. Because of production artificially stimulated elsewhere? A. Yes.

Q. Then there was the other possibility of which you said there was no geological evidence - the discovery of resources yet unknown in that region. A. Yes. I think it is reasonable to say that if rich mineral resources of the sort not now open to view are discovered, such discovery in that area must be regarded as a fortuitous circumstance - a circumstance which no one has the right to take any cognizance of at the present time, except on the basis of past history when there were unexpected and unanticipated discoveries. Making allowance for that, I say that it is a possibility that should not be reckoned upon.

Q. But you say that it is the duty of those responsible so to shape the course of things that it shall not take that factor into account. A. I say that they should not take into account future mineral discoveries that are not now foreshadowed.

Q. And without that, the region is already sufficiently populated. A. Populated?

Q. Yes. The density of population in the region is sufficient for the productive possibilities that are now apparent. A. I should say that if there were prosperity in northwestern agriculture in the United States, and if immigration restrictions were removed, there would be heavy emigration out of the prairies at the present time.

Q. You think so? A. There would be, yes. So that the prairies have more population than they can carry on a cereal economy in the present world wheat situation.

EXHIBIT 425: Supplementary brief presented by Dr. Viner.

THE CHAIRMAN: We are very grateful to you, Dr. Viner, for this clear and comprehensive study of a highly technical question.

HON. MR. BRACKEN: In case there may be any misunderstanding, Mr. Chairman, I should like to refer to an answer that Dr. Viner gave to one or two questions put by counsel and which may have left the impression that in the three prairie provinces no other type of agriculture could be followed except the production of cereals. I gather that what he meant was that substantially that is the type of agriculture which must be followed in that area. I take it that he did not mean to imply that in some parts some other modified system of agriculture could not be followed.

DR. VINER: Even to-day, of course, there is an appreciable fraction of the production of the prairie provinces which is not cereals. I meant in a dominant sense. It is conceivable that a very large part of the cereal belt could be converted into a grass belt and used for grazing. That might solve the problem of income to the owners of the land but it would not solve the problem of gainful occupation so far as two and a half million people are concerned, because grazing does not offer employment.

MR. ST. LAURENT: It would mean a substantial reduction in the number of people whom the area could support.

DR. VINER: Yes.

HON. MR. BRACKEN: That is the point which I wish to have brought out--that, for that area, the cereal type of agriculture is substantially the only type that can be followed to any considerable extent. Some other type of agriculture can, however, be followed in certain areas -- some modified type. He has referred to live stock. In

some sections near the city, and in areas where the climatic conditions are favourable, a modified type of husbandry can be followed. Taking the area as a whole, however, no change can be made from the present condition where cereal production is the main type. I should like to touch upon another point. It has been explained that agriculture in that area, to the extent that it gives place to mixed or dairy farming, will add to the Canadian agricultural problem as a whole a difficulty similar to that which we are now experiencing in connection with wheat. If we start multiplying production, going into cheese and milk and butter, we shall transfer from the wheat growers of the west the problem that now faces them to dairy producers in other parts of Canada, and to the extent that we go in for other types of farming, to that extent shall we run those types into the position where the farmers will have to face the same problem that we have to-day in wheat. What I want to emphasize now, however, is that, on the whole, that area is a cereal-producing area, and in the long run it cannot be substantially different, although as I say, in portions a modified type of agriculture can be followed.

HON. MR. GARSON'S PRESENTATION

HON. STUART GARSON(PROVINCIAL TREASURER): Mr. Chairman, the extremely interesting discussion which we have had during the past few days has dealt with certain of our economic problems in western Canada. Those problems, coupled with other factors, create problems of public finance for the various treasuries of Canada, including the western provinces. The recommendation of the method of solving these problems of public finance -- and, may I emphasize, of preventing their recurrence -- is one of the most important tasks of the commission, and for that reason the purpose of my remarks

to-day will be to discuss, in the light of the facts now before us, some of the methods which have been proposed to this commission for solving, and keeping solved, these problems of public finance. And now may I read my brief:

"Recapitulation of the Essentials of the Manitoba Case in the Light of Criticism Directed against Certain of the Manitoba Corroborative Materials Presented at Ottawa, November, 1938.

"As the Honourable Mr. Bracken has pointed out in his remarks, elaborate statements of fact and argument have been made before this Commission. Many of these, although relevant enough to the central core of this inquiry, dealt with collateral matters.

"In order to avoid any possible confusion as to the real gist of Manitoba's case, it is perhaps appropriate, and it may be of service, for us to offer, in closing, a word or two of recapitulation.

"The real gist of Manitoba's case is that, for reasons which have been stated 'in extenso' and to which we shall briefly and generally allude here, the existing system of public finance in Canada is unsound because it does not take into account the basic facts of the Canadian economy and the Canadian polity.

"We advocate before you a system of public finance in Canada which will take into account these basic facts.

"Canada has a vast territory. Large areas of this territory presently seem to be incapable of settlement or even of profitable exploitation. The settled areas are separated by great undeveloped and unpopulated expanses.

"Canada has a small population. The prospects of her being able to support a large population seem to be less bright than they were once thought to be. The national income depends directly or indirectly in large measure upon the highly variable returns from the sale of large surpluses of a relatively narrow list of primary products in the export markets of the world. The developmental expenditures of a small population in a large and scattered territory and war costs have built up relatively high debt and other fixed charges upon the widely fluctuating returns from the sales of exports. This condition makes government and all forms of economic activity, particularly transportation, costly and difficult; and reduces, both for government and economic activity, the margin which can be allowed for profit, error and waste. In particular, it makes indispensable a system of public finance more efficient than the one we now have.

"Looking out into the world to-day, for once it is not incorrect to generalize, and to say that for the most part the economic policies of almost every nation are largely influenced, if not dictated, by reasons and motives other than economic. It may well be, therefore, that even if we postulate for Canada in matters economic, the maximum of wisdom and foresight upon the part of the electorate and politicians, prudent considerations other than economic may dictate policies which are uneconomic. Such policies might either affect the prosperity of different economic areas in varying degrees, or perhaps bring prosperity to some areas and at the same time bring the sharpest adversity to others. In weighing this possibility, or for that matter the present position of the provinces of Canada,

"it should be constantly kept in mind that Canada is a country the prosperity of which directly or indirectly depends in large measure upon the income received from the sale of exports in the world's markets. Thus, while relatively self-contained countries may for reasons other than economic, pursue nationalistic policies with a measure of impunity, such a course is relatively dangerous for Canada, even although conditions might develop under which it would be necessary for her to pursue such a course. If, therefore, Canada is to be in a position to meet both the domestic and the international eventualities of the future, she must have a system of public finance under which it is possible to provide a decent national minimum of public social services without impoverishing, to the point of bankruptcy, the municipal and provincial governments of the nation. This is so, because, quite apart from the disastrous effect which the wholesale bankruptcy of municipalities and provinces in Canada would have upon the economic welfare of her citizens, it is axiomatic that the credit of the Canadian nation cannot be satisfactorily maintained if that of the provinces which compose it is damaged or lost.

"The factors which control the relative advantages and disadvantages of the various provinces of Canada in economic matters are often so obscure, and are always so difficult, and sometimes impossible to control by practicable political action, that it would seem almost inevitable that large and unforeseen fluctuations in the income of the various provinces should occur from time to time. We should, of course, continue to strive for economic and social justice for the residents of all the provinces of Canada as citizens of Canada. Such

"justice, however, cannot perhaps always be completely attained by feasible political or economic action. While this struggle for economic and social justice for the residents of the various provinces throughout Canada is going on, it is still necessary, as an essential element of sound public finance, that the various provinces and municipalities of the country should at least be kept functioning and solvent. This, of course, is a matter of restoring and maintaining a balance in provincial and municipal budgets. It is one of the most practical of problems -- an arithmetical matter of dollars and cents. If our system of public finance does not take cognizance of these gains and losses in provincial income and if they are not equalized in the future to a greater extent than they have been in the past, we can expect to see a continuation and an intensification of the process of the impoverishment of certain provinces and many municipalities which has been going on more or less unnoticeably for some years but flagrantly and notoriously during this last great depression.

"B. P. Adarkar writes ("The Principles and Problems of Federal Finance" by B.P. Adarkar, published by P. S. King & Son, Ltd. Page 188):

"'The essential nature of public finance may be best stated in the words of Dr. Dalton, who says,

"''Most of the operations of public finance resolve themselves into a series of transfers of purchasing power. These transfers are made, by taxation or otherwise, from certain individuals to public authorities and back again from these authorities by way of public expenditure, to other individuals.....''

"And again Adarkar states (Idem: Page 194):

"'The theory of transferences may, then be regarded as the bed-rock of public finance.'

"Moreover, there seems to be no difference of opinion between the representatives of the various provinces as to the necessity for transfers of income between those provinces.

"On pages 135 to 139 inclusive of the British Columbia Digest of the evidence given before this Commission, there is to be found stated the views of the various provinces with regard to the transference of income from the Dominion to the Provinces by way of subsidies. No province is opposed to it, although Manitoba is quoted as being doubtful, on the basis of past experience, as to the practicability of that method.

"The Province of Quebec in its statement remarks (Translation) (Report of Hearing. Page 8136):

"'The Government of this Province is of the opinion that Dominion subsidies to the Provinces ought to be adjusted and the sources of revenue redistributed between the Dominion Government and the Provinces, taking count of the total amount of population of different provinces, of the actual needs of each one of them, and also the sacrifices which certain of them have made for the development of the country.'

"Ontario, in its presentation by Mr. Chester Walters, to which reference shall later be made, emphatically states that it is quite agreeable that the financial difficulties of certain provinces should be taken care of by a financial transfer from the Dominion in the form of additional subsidies.

THE CHAIRMAN: Have you any idea, Mr. Garson, what

provinces are referred to here by Quebec and Ontario?

MR. GARSON: Yes. I think the reference there occurred in an exchange of remarks between Mr. Chester Walters and the former Chairman, if I am not mistaken, in which Mr. Commissioner Dafoe and Mr. Commissioner MacKay joined. It was with reference to the western provinces.

"Reference might also be made to the Ontario Brief, Part II, Page 22:

"'The Province of Ontario does not suggest that in a Federal country there should be no such transfers. Ontario, on the contrary, believes that in a federal state, a considerable amount of such transfers are both inevitable and just; and Ontario has never shirked its fair share of responsibility in carrying the burdens of Confederation.'

"The following selection from the Report of Hearing, Page 7607, is worthy of note:

"'Commissioner Angus: Then, if I might summarize, Mr. Adarkar goes on to state that it is an important function of the federal system that the federal government should see that there is actually a transference of wealth or of income, as it were, from the richer to the poorer states within the federation. That is to say, it is a theory of transference not based on supposed damage done by federal policies and not based particularly on fiscal need, but based on the idea of more or less equalizing conditions within the federation. This is a view which has, perhaps, been mentioned in only one of the Canadian provinces, but I thought that since Professor Adarkar had been cited as an authority, that it would be proper to point out that that is the way he faces the general issue before us.

"'Mr. Walters: May I say in this connection that

"'in view of the methods of collection, this Government is heartily in accord with the views advanced by Professor Adarkar as to the necessity of the transference of wealth and purchasing power. This government demonstrates that belief in the subsidies which it grants to the municipalities and it recognizes it in the progressive taxes by means of which wealth is transferred from an individual in one state to an economic class in another. This government is in accord with that view which has been expressed.'

"Transfers of income (and purchasing power) between the various regions of Canada have taken place from the time of Confederation continuously until the present time. The inadequacy of the amount of such transfers of income and of the method by which such transfers were made are among the main causes and the main subject matters of this enquiry. There is nothing novel about the idea that such transfers should take place. If there are to be changes to meet the circumstances that have given rise to this enquiry, such changes must be in the amount and method of such transfers.

"These two changes, we suggest, are closely linked together.

"In the light of the frequently recurring changes that have to be made in the amount of, and of the variety of the pretexts for, subsidies in the past, the value of the subsidy method, in arriving from time to time throughout Canadian history at an accurate, proper and adequate estimate of the income to be transferred, is at least open to serious doubt.

"If the subsidy method had worked satisfactorily and if the amounts of the transfers of income had in the past been adequate and proper, a great part of the

"need for the present inquiry would have been obviated. In point of fact, no better proof of the inadequacy of the subsidy method to meet the strain of depression and emergency could be found than in the necessity for the very proceedings in which we are now engaged.

"It would be difficult to establish the amount of subsidies based upon the right of a given province to compensation for the disabilities which its citizens suffer as the result of Federal policy. We have, for example, the Ontario representatives disputing the accuracy of Manitoba's estimate of the loss which Manitoba citizens sustain under Federal monetary and tariff policy. It would be much more difficult, if not impossible, to estimate the net effect upon a given provincial treasury of both gains and losses to its citizens occasioned by all Federal Acts and policies. It is not surprising therefore that the Grants Commission in Australia considered this plea and rejected it.

"Nor is there any reason to suppose that if the basis for calculating the quantum of income to be transferred is to be the fiscal need of a given provincial treasury, that there is any greater likelihood, in Canada at any rate, of arriving at an accurate figure of an adequate amount. The fiscal need of a provincial treasury varies directly with provincial expenditure and inversely with provincial taxation. It is a truism to say that under a democracy provincial expenditures are popular and provincial taxation unpopular. A Grants Commission, therefore, in adjudicating upon the question of a province's fiscal need for the purpose of arriving at the quantum of the subsidy to be paid to it, would find itself essentially in the position of having to disallow these acts of the provincial government which

"were popular and to affirm and approve of those that were unpopular. Such a condition of affairs, we suggest, would be more likely to create than to obviate friction between the various provinces and the Dominion. It would tend, moreover, to encourage rather than to discourage deficit financing upon the part of the provinces.

"It is scarcely necessary to theorize upon these points. Past Canadian history is not without examples of them. It is not without significance that in the present inquiry while, as in the case of Manitoba, specific statements of fiscal need have been put forth by the provinces, no attempt has been made by any of the experts in their studies to say whether these estimates are excessive, and if so, how excessive, nor to give any indication of what the quantitative amount of any such transfer of income should be in the case of Manitoba or any other province.

"Heretofore subsidies were not nominally awarded on the basis of fiscal need, although they were in almost every case actually awarded on that basis. If in future, subsidies are to be awarded upon the avowed basis of fiscal need the only progress we shall have made will be in our having changed the name of the basis rather than the basis itself. If this is to be our only progress in our thinking upon this subject, we suggest, in all deference, that it will be rather a metaphysical progress. We have in the past experienced the greatest possible difficulty in establishing subsidies upon the actual basis of fiscal need; and we cannot be sanguine as to our efforts in the future if the only difference that we propose to make in this method is to change the name for the basis rather than

the basis itself: particularly when the name for the basis, by common consent, has never possessed any real significance.

"Whether such inter-regional transfers as may be required in the future should be inter-governmental transfers, or whether they should be made entirely or in large part through the Dominion fiscal system is sometimes considered a matter of judgment requiring political and administrative rather than economic expertness. Our own view which we wish to urge upon this Commission is that the judgment involved here requires political, administrative and economic expertness. But whatever it may require, we submit that a judgment and a decision by this present Commission upon this very matter is, if not the most important, certainly among the two or three most important tasks to be performed by this Commission. That is our reason for now attempting to meet some of the criticisms which have been directed against our suggestions upon this matter and to recapitulate the position of Manitoba in the light of the views and suggestions which have been expressed by the representatives of other provinces. As we go along, we shall endeavour to correct any wrong impressions which the interpretation placed by the representatives of other provinces upon our previous remarks may have created in their own minds or in the minds of others."

In the next page and a half I deal with some of the views expressed by representatives of the province of Ontario. I develop a point which I think has already been touched upon by previous speakers in this hearing.

"The Commission will recall that in Part VII, Pages 43 to 55 inclusive, of the Manitoba brief, we attempted

"to discuss the merits of the various alternative methods of balancing a sample provincial budget - viz., that of Manitoba. It will also be recalled that in that discussion we considered both the subsidy based upon fiscal need, as well as the subsidy based upon a right to compensation for disadvantages accruing to the provincial treasury applying for the subsidy as a result of losses to citizens resulting from national policies. For reasons which we stated, our submission was that neither of these subsidies was a satisfactory device for a Canadian system of public finance. It is, perhaps, necessary that we emphasize this at the present time because confusion has developed in certain quarters during the course of the hearings of this Commission as to our real position in this regard.

"The representatives of Ontario, for example, have had particular difficulty in interpreting our remarks and there is one point in connection with our case which we think has been completely misapprehended by them which we would like to clear up at the present time.

"On pages 7750 to 7753 of the transcript there is to be found an exchange of remarks between the Chairman, Commissioner Dafoe, Professor Taylor and Mr. Lang, K.C., in which it would seem, from the language used by Mr. Lang, that he was under the impression which he urged upon the Commission that there was some direct arithmetical connection between the figures which we had used in estimating the quantum of our citizens' loss in dollars resulting from Federal tariff and monetary policy, upon the one hand, and the figures which we had used in setting up our 'giving effect to' budget upon

"the other hand.

"Mr. Lang used this language:

"'Yes, as for instance, I may put forward a general claim and in putting forward that general claim I say that I wish to be compensated in money, and in order to establish a quantum of compensation, I introduce figures into my case. Now that is in effect, in my opinion, what has been done..... In referring to the Manitoba submission I think that I am right in this: That at the end they say: 'We wish the Federal Government to do certain concise things involving money' very specifically; in fact I think the figures are definitely set out in some respects. Now that is what I had in mind when I suggested that there is a compensatory claim put forward; and in order to justify this, we go into another quantum and we add that up. In other words, we are making a claim and this is the ground on which we make it. That is the point I want to bring out.'

"It will be recalled in connection with Mr. Lang's remarks that in addition to the disabilities arising from Federal tariff and monetary policy, we cited many other important disabilities which bear upon our present financial position. It is true that it was only with respect to Federal monetary and tariff policy that we attempted to make a quantitative measurement. But we think that it must be quite obvious upon the least reflection that there is no direct arithmetical connection between the figures that we used in measuring the effects of Federal tariff and monetary policy and the figures that we used in our 'giving effect to' budget. The latter figures were most clearly related to those sums of money which the province in its present financial

"position would require in order that the finances of the provincial and municipal treasuries of the Province of Manitoba would placed upon a sound basis. In other words, they were the measure of the fiscal need of the Manitoba provincial treasury. That fiscal need in turn, it is true, arose from a great many causes, the most important of which we attempted to describe. Of all those causesFederal tariff policy and Federal monetary policy were but two, although the two that we attempted to measure. But the measurement of the effects of Federal tariff and monetary policy were, as the Chairman pointed out in this exchange of remarks, a measurement of the burdens of the citizens of the Province and not of its treasury. Assuming that that measurement is reasonably accurate, it is of course apparent that there would be an adverse effect upon the treasury of the Province because the tax-paying capacity of its citizens had been reduced and its costs for social services and the like increased. But we did not make any attempt to measure that effect and we doubt very much indeed whether it is capable of precise measurement. Logically, it is only this secondary effect upon the Manitoba Treasury which could have any arithmetical connection with the fiscal need of the Manitoba Treasury stated in the 'giving effect to' budget, set out in Part IX of the Manitoba Brief.

"It is true that we submitted to the Commission a fairly elaborate statement of fact, the implications of which were that if the solution of Canadian public finance difficulties took the form of either a subsidy based on need, or a subsidy based on the right to compensation for the adverse effects of Federal policy, Manitoba had a claim for consideration. We should

"perhaps be frank enough to say that while we strongly stated our opposition to any form of subsidy at all, we thought that as an important incidental advantage,it was well for us to have before the Commission the facts that would entitle Manitoba to consideration under a subsidy system based either upon need or upon right, as a sort of hedge against the rather bare possibility of the Commission deciding in favor of some system of subsidy based on such need or right.

"But as our Brief, I think, clearly indicates, the gist of our case is that:

"'.....Rather than continue the subsidy as the main instrument of federal assistance of provincial finance, we submit that what is more likely to be workable is an arrangement betweem the Dominion and the provinces which will be more automatic in its workings; which will work reasonably well under all vicissitudes of provincial affairs; which will obviate periodical negotiations between the Dominion and the provinces and arguments as to the formulae and the application of formulae; and which, we think, given reasonable management of provincial affairs, will enable all provinces of Canada to carry on without difficulty once their present position of financial difficulty has been cured. We therefore shall propose to the Commission the treating of the subsidy in a manner which we shall outline in a later part. We shall also recommend an arrangement which will involve the Dominion Government's assuming and paying for a substantially larger share of the responsibility for the new social and other services now demanded of the state. Only by this means can the burden of these expanding services be placed upon a tax base which is capable now and in the future

"'of supporting it.' (See Page 49, Part VII, Manitoba Brief.)

"Only by such an arrangement can provision be made that:

"'..... the cost of maintaining the necessary services will not be increased by overlapping and will be so equitably distributed that there will not be placed upon certain economic regions or economic groups insupportable burdens which in themselves create disequilibrium in the national economy and thereby diminish the national productiveness and create unemployment. An indispensable requisite of any such reallocation is that the government left with a function to discharge shall in fact have, and continue to have, a sufficient revenue to discharge that function along with all others for which it is left responsible.' (See Page 45, Part VII, Manitoba Brief).

"As an introduction to our proposal that the Dominion assume and pay for a substantially larger share of the costs of certain social services and relief, the rather elaborate statement of fact and law which we set out in the Manitoba brief was presented as a general statement of the conditions under which any system of public finance in Manitoba must operate - a background in the light of which any useful thinking upon the subject would have to be done - rather than as the premise of a syllogism from which the conclusion would have to be reached with mathematical exactitude. Thus, the attack of Ontario's representatives upon our figures relating to the monetary and tariff disabilities under which we suffer, even if it were successful, would be quite irrelevant to our main contention, that the solution of the difficulties of public finance lies in the taking over

"by the Dominion of certain social services and relief.

"This main contention requires as its only premises certain facts which are so notorious that they will be admitted by all. They are as follows:

"1. Whether in consequence of national policy or otherwise or, as we allege, partly because of national policy and partly in consequence of other causes, there is from time to time a substantially different level of per capita income as between the various provinces of Canada.

"2. The variation in per capita income is so great, particularly during a period of depression, that in consequence the Government finances of those provinces enjoying a large income are sound with less sacrifice upon the part of the taxpayers; whereas the finances of these provinces having low incomes are unsound and precarious in spite of great sacrifices upon the part of their taxpayers."

COMMISSIONER ANGUS: I wonder if that is quite in accordance with the figures? Some of the provinces had low per capita incomes before the depression and I believe that the Maritime Provinces suffered relatively little then. I mean that they did not have the same drop in income that some other provinces experienced, and their finances remained perhaps sounder than those of some provinces that had a large per capita income but sustained a heavy fall in that income. So to speak, the old poor were better off than the new poor.

HON. MR. GARSON: I should like to emphasize the fact that the depression mentioned here is not the great depression. According to my understanding of the position in the Maritime Provinces, this remark, No. 2, would have a direct application to them in a previous depression, which I believe

was the occasion for the Duncan Commission. There was also what was called the White inquiry, I believe. I will admit, however, that, as in the case of most generalizations, it is difficult to apply it to a universal set of phenomena.

"3. The achieving of complete equality of provincial income by governmental means is not within practical possibility because:

(a) Many of the factors are wholly beyond Canadian control."

That has been amply explained in the case of Western Canada, and it is particularly true of the wheat situation in the three prairie provinces. It is not wholly but largely beyond Canadian control.

"(b) There are in many cases serious political obstacles in the way of controlling those factors which are in theory capable of control in Canada.

We in the West would contend that the tariff is in theory capable of control and should have been controlled long before, but political obstacles have prevented that.

COMMISSIONER ANGUS: Does equality of provincial income mean equality as between one province and another, or does it mean stability?

HON. MR. GARSON: I should think it would mean, if it were possible, the establishment of a norm for each province, and each province in relation to another, and the preservation of that. That, I think, would be the more accurate way of expressing it. It is the preservation of a relative stability.

COMMISSIONER DAFOE: A minimum stability.

HON. MR. GARSON: Yes.

"4. The limited provincial tax base will not support the social services which are now demanded of, and furnished by the state in Canada.

"The provincial tax base will not support such social services even if all of the provincial revenues were pooled, but with existing variations in income and revenue between the provinces, it is quite impossible for more than half of them to provide a satisfactory national minimum of social services or to cope successfully with such problems as unemployment relief without impoverishing and endangering the solvency of their treasuries. The rapid and immense growth of such social services is indicated by the fact that financial transfers from the Dominion to the provinces for the purpose of old age pensions, which commenced in 1928, had by 1936 reached a figure equivalent to the combined statutory and special subsidies, and by the fiscal year 1938-39 will exceed the combined statutory and special subsidies by about ten million dollars. Thus in one decade the Dominion's contribution towards this one social service has come to exceed in amount the whole of the unconditional subsidies which the provinces, after some seventy years of recurrent negotiations, have been able to obtain and which in their beginnings were intended to provide the major part of provincial revenue.

"Again, the aggregate sum contributed by the Federal treasury towards unemployment relief in the post-war depression and the recession of 1925 and 1926 came to less than two million dollars or approximately equal to the amount that was needed every two weeks in the depths of the last depression.

"It seems quite self-evident that to leave approximately two-thirds of such a huge burden upon the limited tax base of the provinces is to invite financial disaster for the treasuries of the less wealthy provinces.

"Therefore, we in Manitoba claim that the unrealities which arise when the seventy-year old financial plan of Confederation have to be applied to modern problems, can only be resolved by the Dominion Government assuming the administration and financing of relief and old age pensions and the paying of fifty per cent towards the cost of certain provincial social services.

"By such means the reduction in provincial revenue and the increase in provincial expenditure for social services and relief costs resulting from loss in income to a province will be equalized as an item of public finance at least to the extent of removing the costs of social services and relief from the provincial tax base. Similarly, fortuitous gains in income to a province will be equalized as an item of public finance by being subject to the Federal taxation which is necessary to pay the costs of social services and relief throughout the nation. Thus, gains in income in a given province will automatically be followed by increased federal revenues and decreased federal benefits. Similarly, losses in income in a given province will be automatically followed by increased federal and social services and decreased federal revenues.

Page 10635 follows

" In this way, and we suggest it is the only way, we can avoid the immense practical difficulty of deciding whether the claim of a given province for a subsidy lies in need or in right, just as we can avoid the immense practical difficulty of deciding upon the formula and the application of that formula in arriving at the quantitative amount of the subsidy to be paid to a given province.

In this way, and again we suggest that it is the only way, a system of public finance in Canada would tend to lessen the extremes of unbalanced provincial budgets, incident to the inevitable wide fluctuation in income in the various provinces resulting from the peculiarities of the Canadian economy, from world conditions over which Canada has no control or relatively little control and from the uneven effects of federal government policies. Moreover, the great virtue of such an arrangement is that it will work reasonably automatically.

Under this arrangement the national government could afford to be less concerned as to how national policies would react upon provincial treasuries than it should be at the present time. It is, of course, realized that the distinction between public and private finance must be preserved in one's thinking; and that it by no means follows that because the responsibility of providing a uniform minimum standard of social services throughout Canada is assumed by the Dominion Government, that there would be a uniform standard of living throughout Canada. As a matter of fact, the necessity for the provision by a central government of a uniform minimum standard of social services reflects the continuing lack of a uniform standard of living throughout Canada. A theoretical

disadvantage of this arrangement is that if under it, the Dominion Government were assured that there would be a minimum of complications in the budgetary position of a certain province upon the adoption of national policies affecting adversely the revenues of that province, because such policies first affected adversely the income of the citizens of such province, there is a possibility that the Dominion Government might be less concerned with the effects of a proposed national policy upon the incomes of people in certain parts of Canada than it is at the present time. But balanced against this consideration would be the fact that if the supplying of social services and relief were a responsibility of the Dominion Government, it would, on the other hand, be less disposed than it is now to formulate policies which would seriously and adversely affect the income of a certain province and thereby increase the cost of social services and relief to the Dominion Government in that province.

It is for these reasons that we advocated as the pith of Manitoba's case two major proposals as set out in the Manitoba brief; viz.,

1. The reconstitution of the provincial debt at lower interest rates; and

2. Reallocation of responsibilities between the Dominion and provincial governments.

The reconstitution of provincial debt, although of the greatest importance to Manitoba, as an item in the problem of public finance is peculiar to those provinces only which have serious debt problems.

The reallocation of responsibilities between the Dominion and the provinces is of interest to every province, including not least those provinces, such as Ontario, representatives of which have opposed this

proposal most.

In connection with the suggestion that the Dominion share with the provinces on substantially a fifty-fifty basis the cost of certain services, we conceive that it is but fair to the Dominion that in any such arrangement a reasonable maximum of the costs of such services under the various headings should be determined, and that if any province should desire to provide services in excess of this maximum it should do so at its own expense.

See page 53, Part VIII, Manitoba Brief.

See page 55, Part VIII, Manitoba Brief:

Reallocation of responsibilities between the Dominion and Provincial Governments

1. The Dominion to assume full responsibility for the financing and administering of unemployment relief (including, as already outlined, the provincial and municipal debt for relief to date).

2. The Dominion to accept responsibility for the total cost of old age pensions, in pace of the 75 per cent of the cost it is now paying.

3. The Dominion to share with the provinces on substantially a fifty-fifty basis the cost of the following services:

Mothers' Allowances
Hospitalization
Care of the Mentally Afflicted
Public Health Services
Highway Construction and Maintenance
Technical Education

4. The province to give to the Dominion the sole power to collect succession duties. "

COMMISSIONER MACKAY: You have at the bottom of this page a list of the services to which you think the Dominion Government might contribute fifty-fifty.

HON. MR. GARSON: Yes. I did not read that. It is a foot note and repetition of our original brief which has been filed and commented upon.

COMMISSIONER DAFOE: Have you any idea about the technique necessary to fix the maximum? Would not the maximum have to rise and fall according to conditions?

HON. MR. GARSON: Yes; I think it would be a matter of administration. But on that point, we have, I believe, an example at the present time. Under the Dominion-provincial relief agreements that obtain in the various provinces my information and understanding is that the provision is not by any means uniform, and yet the Dominion approves of this lack of uniformity in reaching separate agreements with the various provinces. It is simply a matter of administration.

COMMISSIONER DAFOE: It is an arbitrary decision which is liable to give rise to friction, and I believe has generated friction.

HON. MR. GARSON: I would not say that. In my admittedly limited experience on the subject, I believe the greatest amount of friction is generally between the rural and urban areas in a given province rather than between provinces.

Now, I have heard the argument put forth before the Commission that there would be great administrative difficulties in providing for any of these social services across Canada. These difficulties have not happened in that connection as between provinces, I suggest. I know in the case of Manitoba we have, I would say, ten times as much trouble with the relief schedules as between urban and rural areas of Manitoba than with any question that might

arise as between Manitoba, Saskatchewan, and Alberta.

COMMISSIONER DAFOE: You are trying to work out some automatic system that would get away from too much adjustment. On this very point you would have to have adjustment from time to time

HON. MR. GARSON: Yes, but they would be administrative adjustments, and I do not believe in practice they would be found to be nearly as great as anticipation has led us to believe.

Now, for example, if you were establishing the amount of allowance which should be given to a family in Winnipeg as compared with a family in St. Catherines, one of the substantial allowances that would have to be made in Winnipeg is that of fuel, because of a very much colder winter. But I do not believe that any serious person could reasonably complain about that allowance. When anyone theorizes as to what difficulties may arise in regard to that question, I believe it is a complete answer to point out the fact that at the present time we have relief agreements made between the Dominion relief office and the various provincial relief offices covering these very points, in which there is very wide variation for reasons such as I have mentioned, and which so far as I am aware of, have not caused any great amount of complaint. If there has been any I have not heard of it.

COMMISSIONER DAFOE: In each case there would be a bi-lateral agreement between the Dominion and the province, there would not be any uniform settlement as between the Dominion and the various provinces.

HON. MR. GARSON: No. I might put it this way: so far as relief is concerned the meaning of our brief is that the Dominion should take over the entire administration of it. I cannot conceive why it would be more difficult for the Dominion to administer relief under one organization

upon this very point, than it is now difficult for them to administer it by a series of agreements with nine different provincial departments. So far as mothers' allowances, hospitalization, mentally afflicted, and so on are concerned, I think with regard to moethers' allowances some provision would have to be made for greater fuel costs, and the various local circumstances would have to be taken into consideration. It would not be any more difficult to do that than it is to arrive at the terms of these various working agreements between the Dominion and the provincial relief departments, which are working very satisfactorily. As a matter of fact, if all branches of relief administration were being as well taken care of in practice as this, I think it might be correctly said the administration of relief would be a lot better than it is right now.

COMMISSIONER DAFOE: The point I was wanting to get clear was this. The nine provinces of Canada have mothers' allowances.

HON. MR. GARSON: Yes.

COMMISSIONER DAFOE: The Dominion would deal with each province.

HON. MR. GARSON: Yes, contributing a conditional grant in aid to the administration.

COMMISSIONER DAFOE: Fixing a maximum for each province.

HON. MR. GARSON: Yes.

COMMISSIONER DAFOE: And doing that by direct negotiations.

HON. MR. GARSON: And doing that by direct negotiations.

COMMISSIONER DAFOE: You do not think there would be trouble between provinces, one province saying the other province has a higher maximum?

HON. MR. GARSON: I have heard a great deal of that argument, Mr. Dafoe, as to the likelihood of their being

trouble; and as I say, as to mothers' allowances and all these other items one can only speculate in advance. I believe that one man's opinion is probably as good as another. But if we are asked or pressed to bring forward a practical argument I would say the experience of the Dominion relief department in doing what, in principle, is precisely the same thing without any difficulty whatever, would be support for the view that a comparatively small amount of difficulty would be experienced, and nothing like as great a difficulty as a lot of other aspects of relief that we have at the present time.

COMMISSIONER DAFOE: You say you want one Dominion body to allot a certain amount at one time to all provinces?

HON. MR. GARSON: No. The suggestion is that these services such as mothers' allowances, care of the mentally afflicted and so on, are purely provincial services, and because of different reasons of administration would have to remain so. That being so the only way in which they can work properly is for the Dominion to contribute to them.

COMMISSIONER DAFOE: They will only be conditional grants in the sense that the government gave fifty per cent; but control would be a provincial one.

HON. MR. GARSON: Yes, although I imagine, according to the modern theory of conditional grants they would want to have supervisory control.

COMMISSIONER DAFOE: They would want to add up the figures to see if the addition was right.

COMMISSIONER ANGUS: In the case of mothers' allowances there is disparity between the provinces as to whether a mother should get an allowance if her husband has deserted her, or if he is in prison or in an insane asylum.

HON. MR. GARSON: Yes, that is right.

COMMISSIONER ANGUS: There would be, presumably, a unfform condition on that subject.

HON. MR. GARSON: That was the sense in which we suggested in our brief there should be a maximum on all these services beyond which the Dominion would not assist. In other words I should think they would say the provinces on this point as they do under the old age pensions, "This is our ruling, if you do not like it we are awfully sorry, but we put up the money and you have to submit." The same would apply to the next point and so on. But if you are getting down to a family budget I think you would have to depend on local circumstances, because climate varies and conditions vary and so on.

COMMISSIONER MACKAY: Why do you say fifty-fifty? Why use that figure? Is it because these services cost the provinces so much or because it is a convenient figure?

HON. MR. GARSON: I may as well be perfectly frank, I am inclined to think a more permanent solution of the financial problems that belong to these social services would be for the Dominion to take over an even larger proportion than that; because I believe in about fifteen years from now we will see that the provincial tax base won't support fifty per cent, if the present trend continues. But we thought that the amount suggested was about the balance of moderation at the present time.

COMMISSIONER DAFOE: A good place to stop.

COMMISSIONER MACKAY: There is another possible objection to this arrangement you suggest. Some of these services might be put on a contributory or semi-insurance basis.

HON. MR. GARSON: Yes.

COMMISSIONER MACKAY: So long as the province has control it is pretty hard to do that.

HON. MR. GARSON: Yes. While we have not discussed that in our cabinet, I believe so far as Manitoba is concerned I would be quite safe in saying that if there were inter-

vention by the Dominion -- for example, take in the matter of health insurance,-- we would not stick to this, because we would be quite willing to cooperate and go right along.

COMMISSIONER MACKAY: There might be grave difficulties in working out a system by which the jurisdiction would lie in the province, say, as has happened in the United States. Only the state has jurisdiction over many of these social services in the United States, and is contributing to them on a graduated basis.

HON. MR. GARSON: Yes.

COMMISSIONER MACKAY: Apparently they are getting into all kinds of complications.

HON. MR. GARSON: The complications they are getting into in the United States, I suggest, are not so much as to social services but as to care of the relief with respect to the administration of the Wagner-Peyser Act and the Social Security Act, providing for relief. It has a wider provision than a mere provision for unemployment relief. It covers old age pensions, and may concievably cover health.

COMMISSIONER MACKAY: Yes, but basically old age pensions and unemployment relief are the two services you suggest should be taken over.

HON. MR. GARSON: Yes, unemployment relief and old age pensions are the two services we suggest should be taken over by the Dominion, and one of the reasons why we suggest that will be developed later. The system has not worked out satisfactorily in the United States, and the author says he does not think any kind of remedy under the present system will ever cure their difficulty, and eventually they will have to have a complete federal system, which we suggest here. I do believe, however, there is quite a distinction to be drawn between unemployment relief services and mothers' allowances, and so on. Manitoba, I believe, I am correct in saying, would have no objection to the

Dominion taking that over as well. But we thought at the present time it was reasonable to confine our suggestions to the Dominion taking over unemployment relief and old age pensions, and the province continuing to administer the ones we have here. As I said before, I am rather dubious --

THE CHAIRMAN: You would rather go step by step?

Hon. MR. GARSON: Yes. Even is this arrangement were carried into effect I doubt very much whether it would solve the problem for us. Very simply, the question is how much can you load on the provincial tax base. That is all the more evident when you have services that expand so rapidly. Take old age pensions. They have reached the sum of $10,000,000 per annum in excess of all provincial subsidies in ten years. In that way one can get a sort of conception of the burden that is being put on the provincial tax base.

COMMISSIONER MACKAY: And also on the Dominion.

HON. MR. GARSON: Quite right.

COMMISSIONER ANGUS: I suppose these statements are made largely by way of suggestion. It is as broad as it is long, if the Dominion would take over some of them completely and leave others, as long as it was taking substantially 50 per cent of the cost.

HON. MR. GARSON: Yes, quite. For example, I believe we would be quite content if education were substituted for some of these. It is purely a financial matter, the setting up of a balance sheet. If we get relief we can distribute it ourselves to the municipalities. I continue with the brief.

" The representatives of Provinces of British Columbia, Alberta, Saskatchewan, New Brunswick, Nova Scotia and Prince Edward Island have proposed reforms in the public finance system of Canada. In each case the reforms so proposed would in the judgment of those

proposing them afford a solution of their own province's treasury problem. In each case the question is whether such reforms would at the same time equally meet the needs of the other provincial treasuries and the need of the federal treasury.

May we respectfully ask this Commission to examine, with the aid of its experts, the hypothesis which we now advance that our proposals, as applied to the facts of the treasury problem of each one of these six provinces, would afford a solution of that problem?

It remains to consider the position of the Dominion treasury and of the treasuries of the Provinces of Quebec and Ontario under our proposals.

We have at all stages of this inquiry been sensible of the fact that even if a proposal which would solve the problems of all the provincial treasuries in Canada were brought forward, it would be obviously an unsatisfactory burden. Yet we must frankly admit that in respect to our own proposals such a great deal would depend upon the particular methods which the Dominion Government chose to implement them, that it is difficult to offer at this stage any sound suggestions as to the means whereby the Dominion might finance them.

We propose, for instance, that the Federal Government should assume the administration and financing of unemployment insurance, unemployment relief, employment services and old age pensions throughout the Dominion. It is our view -- which at the present time cannot be considered any more than a belief -- that a properly administered system of contributory unemployment insurance, soundly integrated with unemployment relief and an adequate employment service, would in the long run, cost the nation substantially less as a method of dealing with the unemployment problem

generally, than the present system. It is likewise our belief that, without doubt, a contributory system of old age pensions, administered and financed by the Dominion, would, in the long run, be less costly to the Dominion treasury than a continuation of the Dominion's present 75% contribution towards the cost of old age pensions, provincially administered on a non contributory basis."

I do not think there is any doubt about that because at the very most they would be adding twenty-five per cent and possibly getting back fifty.

COMMISSIONER DAFOE: Have you given any thought to the possibility of contributory old age pensions and non-contributory old age pensions after seventy to people who are really indigent?

HON. MR. GARSON: Yes. What I understand by your question, Dr. Dafoe, is this: You mean contributory old age pensions confined to certain classes of individuals such as those who are on industrial payrolls and who, whether by age or obsolescence at a fairly early age say, sixty-two to sixty-five, have reached a stage where they should be retired to make room for other people. I would be in favour of contribution by that class and to assist on a non contributory basis others from whom it would be difficult to collect contributions.

COMMISSIONER DAFOE: Yes, but under a different system under which the province would administer it. Have you given any thought to that phase of it?

HON. MR. GARSON: I have given some thought to it, but I certainly would not pass as an authority on it at all. Such thought as I have given to it would lead me to believe that it would be much better to have the whole scheme administered nationally. I think eventually we will come to the position that this author in the United States indicates, and just as the National Employment Commission

indicates, and just as the experience of almost every federal country in the world that has tackled this question of social service, unemployment relief, and so on, indicates. They have not thought it out under different systems. It is all tied together and administered under one plan, with insurance tied in as a part of the picture.

I continue:

" But obviously the ultimate cost to the Dominion treasury under our proposals of unemployment of old age pensions, and of the Dominion contribution towards the cost of provincial social services, would depend in such great measure upon the basis of contribution, administrative efficiency, etc., that it would obviously be futile at this time to make any but the most general suggestions as to the methods by which any net additions to the Dominion Treasury's burden might be borne.

As the Commission knows, we have not shirked what we considered to be our responsibilities in making these general suggestions. These may be found, set out in Appendix "B" in Part Ix, page 27, of the manitoba Brief.[1]

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[1] Possible source of additional revenue for the Dominion Government to assist in financing the cost of social services to be transferred to it.

1. Transfer from Province to Dominion of succession duties as a field of taxation.

2. Increased rates of succession duties.

3. Monopoly of taxes.

4. Initiation of taxes comparable to Great Britain's recently enacted National Defence Contribution. In England this 'prosperity' adjunct to the income tax assists in the financing of rearmament expenditures. Its

And now for a moment let us consider our own proposals from the standpoint of the province of Ontario and its citizens. We can do so to much better purpose by using the facts that have been brought forward by the representatives of that province in their presentation to this Commission. These facts were not available at the time that Manitoba made its own submission at Winnipeg. The Province of Quebec, having presented no brief, we are unable to examine the facts of its case. But we suggest that it will be clear as we proceed that the positions of Ontario and Quebec in relation to many of the facts which we shall discuss, are analogous.

May we first of all adopt, subject to certain qualifications, some of the figures that Dr. Taylor used in the Ontario brief.

On page 21 of Part II of this brief there is a statement to the effect that:

> ".....(a) A blanace is struck showing the net transfers to or from each area resulting from the Dominiin Government's ordinary financial transactions ....The net result of Dominion Government finance has been to transfer 75 or 80 million dollars from the province of Ontario for the benefit of the Maritimes and the Prairie Provinces."

In the table in which this said balance is struck, the Prairie Provinces are shown as having received 65.3 million dollars in the year 1935-36 and 50.4

---

equivalent in Canada might be used, fortunately, for less anti-social purposes, to finance part of the social services.

5. A tax on interest comparable to that of Australia.

million dollars in the yar 1936-37, Ontario's contribution in these two years being 79.7 and 73.6 respectively.

On page 7473 of the transcript, Mr. Commissioner Angus is quoted as raising an important point with regard to Dr. Taylor's figures. He said:

" Can you always separate the incidence of taxation and the burden of the tariff? I am not discussing the burden of the tariff now. But take, for example, the consumption of sugar. The people who buy cane sugar can pay perhaps more Dominion taxation than the people who buy Canadian grown sugar. But are not really all consumers of sugar in much the same position in contributing some costs to national services and policy?

Prof. Taylor: Yes. I think there are, however, two questions. The question we are trying to answer is this. I consider it this way. That in 1936-37 the Dominion Government collected some $411,000,000 of revenue. The collection of that sum of money involves both direct and indirect effects. For the moment I want to deal solely with the direct effects. In other words, upon whom or upon what group did that burden of $411,000,000 fall?"

Dr. Taylor, it may be added, does not at any point attempt to deal with what he terms the 'indirect effects of the Dominion's revenue collections' or the burden of the tariff except in his criticism of Manitoba material. Thus his figures are not significant as an indication of the transfer of purchasing power as between the prairies and the Province of Ontario generally because as Dr. Taylor himself specifically admits, they do not even purport to include many of the important factors which would enter into a calculation of such a transfer. Dr. Taylor's figures, however, are of great interest and

value as indicating the extent to which the Dominion, under the present system of public finance in Canada, has had to help certain provinces with moneys in the federal treasury which represent in large measure the proceeds of Federal taxation in the province of Ontario.

Ontario has over estimated transfer of income from Ontario to Western Canada by Dominion Government Taxation and Expenditures.

But even in this narrower sense we submit that Dr. Taylor's figures as an evidence of the quantum of the transfer, are in some respects quite misleading and in other respects quite inaccurate, for the following reasons:

Firstly they are misleading because Dr. Taylor should know that the figures for the years 1935-36 and 1936-37 which he selects are not average years. Western Canada in those years was still in a very depressed condition, whereas Ontario has made a substantial recovery. Thus to imply that the average transfer to Western Canada was of the order of those two years is most unfair to Western Canada.

Secondly, Dr. Taylor in his calculations upon the distribution of the sales tax, makes no allowance for the variation in retail sales to tourists which are shown in the 1936-37 Canada Year Book, page 582, as being $101,687,000 in Ontario or 63.6% of the total, as compared with $1,999,000 in Manitoba or 1.3% of the total.

Unless Dr. Taylor has assumed, and we do not think that he would be warranted in assuming, that the sales tax paid by an American tourist in Ontario is to be taken as a burden upon the citizens of Ontario, Dr. Taylor should have made an allowance in his

calculations for this variation in the amount of tourist retail sales. This he has not done.

Thirdly Dr. Taylor has distributed the federal corporation income tax among the provinces by crediting to each province the corporation income tax paid by all corporations with head offices in that province.

The Ontario brief itself clearly points out that:

" The final incidence of the corporation income tax is on the shareholders, and occasionally upon other investors in the corporation. The burden of the corporation income tax on Ontario is over-estimated if, and to the extent, that 'foreign' shareholdings of corporations with head offices in Ontario exceed Ontario shareholdings of corporations with head offices elsewhere."

It would appear, therefore, that Dr. Taylor has, by the method that he has used, very considerably over-estimated the burden of the corporation income tax on Ontario because, as the Ontario brief, Part II, Page 8 states:

" Considerable amounts of Ontario money went into the development of the West. Most of the foreign industrial capital invested in Canada is in Ontario. Much of the money used in financing the costs of settlement of the Western farmer came from Ontario. Foreign capital was reluctant to venture into this less familiar and more risky field in sufficinet quantities, and, in a sense, the credit of Ontario industries and resources was pledged to provide capital for western developments.

What proportion of the western public and private debts are held in Ontario is not known. It should be noted, however, that a large part of the holdings that may be attributed to Ontario are

merely held in trust by Ontario institutions for non-Ontario and non-Canadian beneficiaries. Ontario trust and loan companies and private lending agents probably hold at least $100,000,000 for non-Canadian clients.

On balance, Ontario is not a 'creditor country'. Between one-quarter and one third of Ontario's industrial and financial capital is borrowed from or owned by non-Canadians."

Again we quote from the Ontario brief, Part II, page 9:

" In Ontario a very much larger proportion of the volume of production comes from business units organized on a corporate basis, and a much lesser proportion comes from individually owned and operated business units, hence a considerable amount of income is received as 'dividends' which in an economic sense are 'earned' income....."

These three quotations indicate very clearly that according to the Ontario brief itself, the amount of the burden of the federal corporation income tax on Ontario has been greatly over-estimated by the method used by Dr. Taylor. Our own experience is that the data from which this burden might be calculated by a correct method are not available. No doubt Dr. Taylor's method is the best that could be used under the circumstances. Our point, however, is that if the statements that we have quoted from the Ontario brief are correct, then Dr. Taylor's figure as to the burden of the federal corporation income tax on Ontario is subject to a heavy discount. One or two practical examples will demonstrate the extent to which Dr. Taylor's figures should be discounted. If, in the United States, the federal income tax payable by corporations was to be attributed to the state in which

the head offices were situated, the small State of Delaware would undoubtedly be shown as bearing a hugely diproportionate burden of the federal corporation income tax.

To take an example closer home and relevant to both the provinces of Ontario and Manitoba, the Hudson's Bay Mining and Smelting Company, a very large company whose business in Canada is confined to mining and smelting carried on in Saskatchewan and Manitoba, has its head office in Woodstock, Ontario, and until this last year paid its federal corporation income tax to an Ontario branch office of the Federal Income Tax Department. The figure for which Dr. Taylor has taken credit upon behalf of the Province of Ontario in 1936 will include the income tax paid by this company. Yet we do not think that there is any question that the bulk of the stock in this company is held by non-Canadians; and of the amount held by Canadians it is open to serious question as to whether residents of Ontario held more than residents of Manitoba.

Again, the International Harvester Company of Canada, a subsidiary of an American concern, of which the stock, we presume, is largely held by non-Canadians, has its head office in Ontario, pays its corporation income tax in Ontario and yet, although this is perhaps irrelevant, makes the bulk of its sales in western Canada. By Dr. Taylor's method, Ontario takes the credit for this corporation income tax to Ontario and, as we think, quite inaccurately, treats this as a burden of taxation upon the citizens of Ontario.

Fourthly, Dr. Taylor distributes the Canadian National Railway deficit among the various provinces upon the basis of the tonnage of freight originating in each area. Surely this is a very arbitrary method

of distributing the responsibility for a deficit. We think that the task of distributing the deficit of the Canadian National Railway is sufficiently complex and intricate as not to permit the use of such a rule of thumb formula. If, for the lack of time, it were necessary to make a wild conjecture, surely it would be more reasonable to think that the deficit might more accurately be allocated by a comparison between the costs of operation in a given area and the revenue earned directly and indirectly in that area. In any event, whatever might be the proper method of allocating this deficit, we affirm that Dr. Taylor's method is certainly not the proper one. As a matter of fact, the interdependence between the provinces nowadays is such that we think it would be extremely difficult to say with any real accuracy just who were the ultimate beneficiaries or deficit-payers of railway deficits in Canada.

For the above reasons we submit that Dr. Taylor's figures for 1935-36 and 1936-37 are subject to a substantial discount, the amount of which we do not pretend to be able to measure. After this discount has been deducted we say that the resultant figures are not typical and that in order to arrive at the average annual transfer of income, there must be a further substantial discount from the adjusted figures for 1935-36 and 1936-37.

We concede, however, that after all these adjustments have been made that there would still remain a substantial figure, representing the net transfer from Ontario to the Prairie Provinces, resulting from the Dominion Government's ordinary financial transactions, or representing, in other words, the extent to which the citizens of Ontario, through the medium only of federal taxation

and expenditure contribute towards the maintenance of public services in the Prairie Provinces."

I think, Mr. Chairman, this is a good place to stop.

THE CHAIRMAN: Mr. Garson, the Commission will have a private sitting in the morning. I understand from the Hon. Mr. Bracken that you need but an hour tomorrow afternoon to close the case for the province of Manitoba. If that is so we will adjourn now to resume at 3.30 tomorrow afternoon. You will have ample time after the private sitting tomorrow to complete your case. We want you to take all the time you need, but I understand from the Hon. Mr. Bracken that you will finish in an hour. That is satisfactory to you, is it?

HON. MR. BRACKEN: I suggested at the time he might get through in an hour.

THE CHAIRMAN: I am not suggesting that he will take only an hour. If necessary we will sit till five or later.

HON. MR. GARSON: Yes.

THE CHAIRMAN: It does not mean you will be tied down to an hour. You may take more if you need it.

(The Commission adjourned at 4.30 P.M.
to meet tomorrow at 3.30 P.M.)

ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

REPORT OF PROCEEDINGS

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OTTAWA, ONTARIO, DECEMBER 1, 1938

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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

OTTAWA, ONTARIO, DECEMBER 1, 1938

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Parliament Buildings, Ottawa, Ontario, on Thursday, December 1, 1938, at 3.30 p.m.

PRESENT:

DR. JOSEPH SIROIS.....CHAIRMAN

JOHN W. DAFOE, ESQ)
DR. ROBERT ALEXANDER MacKAY) Commissioners
PROFESSOR HENRY FORBES ANGUS)

Commission Counsel:

Louis S. St. Laurent, Esq., K.C.

Secretariat:

Alex. Skelton, Esq.	Secretary
Adjutor Savard, Esq.	Secretaire Francais
R. M. Fowler, Esq.	Legal Secretary
Wilfrid Eggleston, Esq.	Assistant to the Secretary.

Commission Staff:

Professor F. A. Knox

Professor W. A. Mackintosh

FOR THE MANITOBA GOVERNMENT:

Hon. John Bracken	Premier
Hon. Stuart Garson	Provincial Treasurer
Hon. W. J. Major	Attorney General
Dr. A. R. Upgren	University of Minnesota
Dr. Alvin H. Hansen	Harvard University
Dr. Jacob Viner	University of Chicago.

Railway Committee Room,
House of Commons,
Ottawa, Ont.,
December 1, 1938.

AFTERNOON SESSION

The Commission met at 3.30 p.m.

THE CHAIRMAN: As Dr. Hansen has to catch a train, we will hear him first.

DR. ALVIN HANSEN: Thank you, Mr. Chairman.

SUBMISSION BY DR. HANSEN FOR MANITOBA

Mr. Chairman and Members of the Commission, I have a brief statement which I should like to add to my submission made on November 29th last.

As a result of the continuing discussion of the Manitoba Brief on monetary policy it has become increasingly clear that there has been some misunderstanding with respect to the character of the alternative monetary policy which has been contrasted with the monetary policy actually pursued. We would like therefore to make it quite clear that in our judgment there is a vast difference between a government undertaking a monetary program which can be described as a kind of monetary juggling or quite arbitrary currency depreciation, and on the other side a broadly conceived, balanced program designed to maintain the national income and to resist deflation on a broad front, involving a variety of means, of which one important element would be a policy of currency realignment.

It is definitely clear that quite arbitrary monetary juggling by a government could easily be harmful to the national economy. On the other hand we hold that a well-considered bianced program designed to maintain the national income, of which the policy of currency realignment was a part, could be depended upon to promote confidence in the policy undertaken. Indeed, both on grounds of experience in many countries throughout the world in recent years, as well

as upon grounds of general economic analysis, we believe that this conclusion is inherently reasonable, and would be generally accepted.

In view of the interpretations which some have placed upon our initial monetary Brief it will be noted that in our submission of November 29th last at Ottawa, we spent about half of the time on a broad general presentation of a balanced program of monetary expansion, deweloping in the light of world experience and of current monetary theory, what might be described as the economics, broadly conceived, of currency alignment.

We confess that we were somewhat uncertain whether the amount of time thus devoted to this broad subject was justifiable even in the light of interpretations which had been placed upon the initial Monetary Brief of Manitoba. When the initial Brief had been presented we had not regarded it as necessary to present in any elaborate manner these these general aspects of the problem.

We should like to emphasize that we should not regard a narrow policy of currency depreciation standing by itself alone as adequate to meet a depression situation. We do emphasize the importance of a broadly conceived program designed to maintain the national income and to prevent deflation, of which a program of currency realignment is an integral part. We believe, as we have indicated above, that such a broadly conceived program would positively contribute to public support and confidence in the policy adopted. We do now, however, wish to call attention to the important fact that the broadly conceived program designed to maintain the national income could not in the circumstances prevailing in the great depression be adopted unless the monetary authorities were willing to accept as a consequence the fall in the foreign exchange value of its currency.

We hold, moreover, that once the decline in the foreign exchange value of the currency had become a fait accompli, it is then permissible, particularly for a small country largely dependent on exports such as Canada to support a foreign exchange value of its currency sufficiently low so as to promote in and of itself through its impact upon the value of exports an expansion of the national income. Thus in our judgment the realignment of currency is not intended merely to follow as a result of the changed position of the balance of payments resulting from a program designed to expand national income, but instead, currency realignment we hold should itself in these circumstances be used as an instrument of monetary expansion. Particularly is this the case, we feel, because of the extraordinary importance of exports to a country like Canada in the determination of the level of the national income. A large exporting country like Canada is in a peculiarly favourable position to implement monetary policy as a means of promoting the maintenance and the increase of the national income. This is true because, as we have shown in our submission of November 29th last, while for large industrial countries investment in fixed capital is the major determinant of the national income, for countries like Canada the major determinant is the value of its exports.

While monetary policy cannot in all circumstances be effective im promoting investment in fixed capital, a policy of currency realignment may be peculiarly effective in raising the value of exports. Moreover, the initial resulting increase in the value of exports sets going a cumulative process of expansion since the increased value of exports in turn stimulates consumption, and this consumption in turn stimulates investment in a manner now familiar in the theory of business expansion.

We should also like to stress again that the all-important necessary choice which a country experiencing

deflation must make has in the first instance to do with internal stability; that is to say, whether or not it wishes to resist deflation, to maintain or expand its income, or whether it is above all concerned with the maintenance of the foreign exchange value of its currency. If a country is determined to resist deflation and to maintain its income it must be prepared to permit a fall in the foreign exchange value of its currency. The fall in the value of its currency follows as a necessary result from the determination to prevent deflation and to embark upon a program of expansion. We should therefore like to emphasize that all discussions with respect to whether a country deliberately alters the foreign exhhange value of its currency are frequently more or less meaningless. It is, of course, a fact that no country is inevitably compelled to permit a fall in the foreign exchange value of its currency provided it is willing and able, in view of its institutional arrangements, to submit to an unlimited degree of deflation.

May we again emphasize the point that we are concerned not with a narrow interpretation of currency depreciation. Instead the monetary policy which we conceive as desirable is a broadly conceived program of expansion, involving a number of well-coordinated policies, of which currency realignment, we think, must be regarded as an important and significant element.

We feel that it is very important to bear in mind that fact that the policy actually pursued in Canada did result in placing a serious burden and disadvantage upon the western provinces. We consider this development not with a view to placing blame upon the act of any public official during the period of the great depression, but only with a view to finding in our past experience some guidance for the future.

MR. ST. LAURENT: That will be filed as Exhibit 426.

EXHIBIT 426: Supplementary statement by Dr. A. Hansen, on behalf of Manitoba.

(P. 10663 follows)

THE CHAIRMAN: Before Mr. Garson proceeds with his submission, I should like to say a few words.

We have just learned to-day to our great astonishment that economists sometimes disagree on very simple questions, such as the incidence of the tariff and monetary policies. But I think everybody will agree if I take a moment to offer to you, Mr. Garson, on behalf of the Commission and everybody here, most sincere congratulations and many happy returns on your birthday. I remember that last year we offered them to you in Winnipeg. We have now the pleasure of offering them again to you here in Ottawa.

HON. MR. GARSON: Thank you very much, Mr. Chairman, for your congratulations and best wishes. I seem to have got into the habit of celebrating my birthdays in the presence of this Commission, and I cannot imagine any more pleasant way of doing it.

COMMISSIONER DAFOE: It won't happen again.

HON. MR. GARSON: If I may I will now resume with my submission.

SUBMISSION BY HON. MR. GARSON

(cont'd)

HON. MR. GARSON: When the Commission rose last night I was pointing out, Mr. Chairman;

> "We concede, however, that after all those adjustments have been made that there would still remain a substantial figure, representing the net transfer from Ontario to the Prairie Provinces, resulting from the Dominion Government's ordinary financial transactions, or representing, in other words, the extent to which the citizens of Ontario, through the medium only of federal taxation and expenditure contribute towards the maintenance of public services in the Prairie Provinces

"SYSTEM OF PUBLIC FINANCE PROPOSED
IN ONTARIO BRIEF"

"It is to be noted that the Ontario Brief supported the continuation of the present system of public finance in Canada in its main outline, subject to certain modifications which rather strengthen its principle than otherwise.

"The Ontario Brief, Part II, at Page 60, states:

'The Government of Ontario submits that, inasmuch as the Provinces and their associates, the municipalities, bear the larger share of the ever increasing burden of Mothers' Allowances, direct relief, hospitalization, education and other social services' costs, they have the moral and equitable right to priority in income tax and all other direct taxes.'

'If the Dominion Government will look at this matter from a broad standpoint, they will accede to this request and will at least acknowledge the Provinces' right of priority in respect to direct taxation. If the Dominion authorities will do this, the Province of Ontario will be willing to look after unemployment relief and will ask no assistance from the Dominion Government, but will make an equitable arrangement with the municipalities, which will help to lift the heavy load of taxation that now bears upon real estate.'

"Owing to the concentration of wealth, property and large incomes in Ontario, we may presume that the Ontario representatives thought that that which they advocated would constitute a happy solution of their difficulties.

"ONTARIO BRIEF OFFERS NO SOLUTION FOR
AT LEAST SIX OTHER PROVINCES OF CANADA"

"The proposals of the Ontario Brief will not solve the financial problems of at least six other provinces of

"Canada because in these other provinces the collection by their Treasuries of the whole of those taxes which Ontario has sought for itself, to the exclusion of the Federal Government, would not provide sufficient money to meet the costs of discharging their present responsibilities, including social services and unemployment relief.

Position of Certain other Provinces under Ontario Proposals

"No doubt is left in the Ontario brief as to how these other six provinces should meet their financial problems. Part I of the Ontario Brief, points out that 'the provinces are fiscal entities and must live within their means'; and on page 60 of Part II the statement is made:

> 'The trend of Provincial obligations has already been discussed. The costs of education, health, welfare, housing, rural standards of life, and the relief of municipal tax rates, all present financial problems that the Provinces must face within the limits of their budgetary capacities.'

"The solution of the provinces' financial problems which the Ontario brief advances is that every province should be given the field of direct taxation to itself, and that it shouldthenceforth live within its 'budgetary capacity' by paying for what services it could, and presumably doing without the remainder.

"The difficulties of these less well-off provinces in the light of such suggestion are quite concisely stated by His Lordship the former Chairman at page 7622 of the transcript of the hearings as follows:

> 'Mr. Walters, just on that point; one can see, if that were done (i.e. suggestion of the Ontario

'representatives as to taxation, etc., carried out) how Ontario could handle its financial situation, but there are some of the provinces which cannot handle their unemployment relief even if they had full priority on income tax. That is based on financial statements which have been submitted to us, - particularly the Western Provinces.'

That is the reference, Mr. Chairman, you were making yesterday.

Ontario Doctrine of "Fiscal Justice" by Provinces

"It is interesting at this point to note another important feature in the Ontario theory of public finance.

"The Ontario Brief, Part II, at page 60, has the statement:

'We have already discussed differences in economic and political standards in the different regions of Canada. An important part of the political differences between regions, a significant variation in the political mores, is the different conceptions of means of achieving the varying standards of social justice. These differences in the regional conceptions of public morality are, we submit, of fundamental importance. It is of the essence of self-government that a people shall be permitted to establish and enforce its own considered standards of fiscal justice...

'We submit that each province, if it is to enjoy that measure of political self-government which is the essence of Canadian federation, must

'have the right to impose its own standards of public morality in its own fields of taxation. After the provinces have established their policies the Dominion may impose its conception of fiscal justice in relation to Confederation as a whole.'

"The impracticability of this doctrine is exposed by a question which was asked of the Ontario representatives by a member of the Commission. (Report of Hearings, page 7634):

Commissioner Angus: 'Are you not setting up a difficult problem there? You say each region should be permitted to establish its own standards of fiscal justice. The Dominion must take account of the taxes which will be imposed in each region or else there will be fiscal injustice. Does not that make ten different standards of fiscal justice, with the Dominion attempting to fit in with the standard of each of the nine provinces? Is that a practical thing?'

"We submit that the formula of the Ontario representatives, as set out in the printed brief, as applied to these other six provinces, would constitute no solution whatsoever for their financial problems. The theory developed in the printed Brief is that they are to do their best to live within their means upon the taxes which, in Ontario's case will, according to the Ontario Brief, enable that Province to provide a very satisfactory standard of services and at the same time balance its budget. It has been amply demonstrated to this Commission that it would be impossible for these other provinces to do this. To the extent that they could not, the present wholly unsatisfactory condition

"of their financial affairs will be perpetuated. In order to prevent a collapse in minimal social services and relief assistance or provincial defaults which would adversely affect Dominion credit, the Dominion Treasury would have to continue helping these other provinces. The question is: Could the Dominion Treasury do this after having abandoned the fields of taxation which Ontario desires that the provinces should monopolize. The Ontario theory as to future trends of federal treasury expenditures implies that the Dominion Treasury could give up these taxes and still carry on. The Ontario Brief, Part II, page 60, states:

> 'With proper management Dominion debt charges can be stabilized and should in the near future begin to decrease. The cost of war pensions will start to fall rapidly during the next decade. Railway deficits may not be entirely eliminated in the immediate future, but they will almost certainly be lessened. Even if the Dominion does assume certain limited responsibilities in the field of social insurance, they will doubtless be on a contributory basis, and, with proper management, should not be a heavy financial drain.'

"We suggest that this forecast is not comprehensive and that the Ontario representatives will have great difficulty in finding anyone to share their optimism, and least of all the Federal Department of Finance. While there may be an implication to that effect in the forecast which we have just quoted, the Ontario representatives have not specifically stated that the Federal Treasury could do without the revenue from the taxes which they have suggested that the Dominion

"should abandon in favour of the provinces. Yet, notwithstanding Ontario's optimism with regard to the outlook for the Federal Treasury, we think that it may be taken as a fact that the Dominion could not forego this revenue. If it could not, then what must be the Dominion's position if, in addition to abandoning these forms of direct taxation which, although adequate for Ontario, will not be adequate for at least six other provinces in Canada, it must continue to help the other provinces whose present problems most certainly will not be solved by the Ontario proposals.

"In this connection the following portion of the report of the hearings is enlightening as to the extent to which the Ontario suggestions would constitute a solution of the Federal Government's difficulties (page 7613):

> The Chairman (Mr. Rowell): 'I am only trying to look at it from a practical point of view. I appreciate fully the force of the argument which you have made. This argument has been made in other provinces, that the limitation upon the provincial power of taxation to direct taxation --- how helpful it would be to the provinces to have the field of income tax available to the province. I appreciate the force of that argument. On the other hand, the Dominion Government must meet its budgetary requirements. What other source is there available from which it could secure the necessary money to carry on the business of the Government of Canada.'
>
> Mr. Walters: 'Of course, sir, that is for the Dominion Government to discover.'

The Chairman (Mr. Rowell): 'You see, Mr. Walters, we have to look at the whole situation from all angles. There would be no use in our recommending a solution which, on its face, would be impracticable. I am raising the point only for the purpose of getting additional light on a difficult and complicated problem.'

"For these reasons we submit that the proposals in the Ontario Brief that the Dominion relinquish certain fields of direct taxation to the provinces and that the provinces assume the whole burden of relief and social services are unworkable because:

1. The Ontario proposals would not solve the financial problems of at least six other provinces of Canada.
2. The Ontario proposals would increase and complicate the financial problem of the Dominion Treasury without any commensurate benefit to any province except Ontario and possibly Quebec.
3. The Ontario doctrine of having different standards of fiscal justice for the provinces of Canada with the Dominion having to adapt its taxation policy to all of them is impracticable and disruptive of Confederation."

Views of Ontario Representatives which are Opposed to Ontario Brief

"That the proposals of the Ontario Brief would not solve the problems of other provinces of Canada seems to be realized by some of the gentlemen who presented that Brief.

The Brief itself emphasizes more than once the fact that provinces must live within their budgetary capacities. The budgetary capacities of the western provinces, by the way, have been affected, if not determined, in

"substantial measure by federal policies which we submit have been unfair to Western Canada and which Ontario now proposes should be made more unfair than ever. The very clearly expressed view of the Ontario Brief is that we must accept these budgetary capacities so determined, and live within them.

"But Mr. Chester Walters puts on record in the most definite and positive language a proposal for taking care of those provinces for which the Ontario Brief makes no provision. His statement is as follows: (Report of Hearings, p. 7623.)

> Mr. Walters: 'I do not pretend to any intimate knowledge of their budgetary position, but if they (i.e. the Western Provinces) are to carry on, Mr. Chairman, as provinces, they should be able to find ways and means to look after their local affairs.'
>
> The Chairman (Mr. Rowell): 'You see, Mr. Walters, if there is any re-arrangement in financial relations between the Dominion and the Provinces one would think there must be some uniform principle applied, - that the same general principle should govern financial relations between the Dominion and all the Provinces, do you not think?
>
> Mr. Walters: 'Mr. Chairman, the same relations do not apply in the matter of subsidies. I think we get about 80¢ and some of the other Provinces get several dollars per capita, so that the arrangement there is not uniform. Financial relief could be given by increased subsidies. This Government makes no complaint, and does not consider that it is any of its business what the Dominion Government does with its revenues, which are

'properly collected. That is their business and they are not responsible to this government but responsible to the electors of Canada; and not a word of complaint has been said in this brief, nor will be said, in regard to the inequality that characterizes the manner in which subsidies are distributed. There is no complaint about that at all. It is quite within the power of the Dominion Government to increase its subsidies to the Western Provinces.'

Commissioner Dafoe: 'By that you mean interim subsidies as well as unconditional permanent subsidies?'

Mr. Walters: 'Exactly, Dr. Dafoe.'

Commissioner Angus: 'So that while Ontario would look after its unemployment relief it does not mean on condition that the other provinces will do the same?'

Mr. Walters: 'No, Old Mother Ontario wants this country to go on and prosper, and does not object to any help being given to the other provinces.'

"Mr. Walters' positive statements do three things:

1. They admit that the proposals of the Ontario Brief would leave certain provinces still requiring relief from the Dominion Treasury.
2. They admit that the Dominion Government after giving up a large part of its revenue from direct taxation would not be wholly relieved of the necessity of helping certain provinces.
3. They modify the emphatic contention of the Ontario Brief that all provinces must live within their

"means by the implied admission that under the Ontario plan it is impossible for them to do so."

Hon. Mr. Hepburn Contradicts the Ontario Brief.

"Mr. Walters' very specific statements were with reference to the other provinces than Ontario. Let us turn from his remarks to those of Premier Hepburn himself.

"It will be recalled that the Ontario Brief which was presented to this Commission in April, 1938, said:

> 'If the Dominion Government will look at this matter from a broad standpoint, they will accede to this request and will at least acknowledge the Provinces' right of priority in respect to direct taxation. If the Dominion authorities will do this, the Province of Ontario will be willing to look after unemployment relief and will ask no assistance from the Dominion Government, but will make an equitable arrangement with the municipalities which will help to lift the heavy load of taxation that now bears upon real estate.'

"Four months later, after Premier Hepburn had presumably had time to give the matter more mature consideration he is reported as having on the occasion of his 42nd birthday given an interview in which he is reported by the Winnipeg Tribune's Ottawa Bureau (see Winnipeg Tribune, August 12, 1938) with having stated 'his approval of a statement made Wednesday night at Barry's Bay, Ontario, by Conservative Leader Manion. Dr. Manion said the Federal Government should assume reaponsibility for relief costs. He considered this would enable municipalities to reduce taxes'.

"The authenticity of this news item is indicated by the fact that The Winnipeg Free Press (morning) of August 13, 1938, stated with reference to the same occasion that 'the Quebec Premier said he stood with Mr. Hepburn in endorsing the proposal of the Hon. R.J. Manion, the National Conservative Leader, who said in an address at Barry's Bay, in Eastern Canada, it is necessary that the Dominion Government should assume the burden of relief, relieving municipalities of heavy taxation.' Similar statements were published in other newspapers in Canada. None of them have been contradicted or corrected by the Hon. Mr. Hepburn.

"If the change of opinion thus attributed to Premier Hepburn and if Mr. Walters' statement of the Government of Ontario's attitude towards an increase in subsidies for certain provinces are the expressions of the Ontario Government's considered and permanent policy, then we submit that the Ontario brief should be abandoned since obviously these two statements by the Hon. Mr. Hepburn and Mr. Walters destroy its central idea.

That central idea was that the Dominion should relinquish the field of direct taxation to the provinces and the provinces should take care of the whole cost of relief and social services. If the Dominion were to give up a large field of taxation we presume that it would wish to be assured that the provinces would really take care of all relief. But Mr. Walters says that if some of the other provinces need some help in addition to the direct taxes which the Dominion is to give up, Ontario has not the slightest objection to the Dominion giving this in the form of increased subsidies. If the Dominion were not reassured by Ontario's concession on this point, we

"suggest that it would view with alarm Premier Hepburn's suggestion that it take over all of direct relief particularly when Premier Hepburn failed to couple with it any hint that the Province of Ontario did not still want the Dominion Government to abandon the field of direct taxation.

"As matters now stand the Ontario Government wants the Dominion:

1. To abandon the field of direct taxation.
2. To assist the provinces which are in need with increased subsidies.
3. To assume the burden of relief.

"We question whether the Dominion Treasury is able to do all of these three things.

"From the time when the method of financing unemployment relief first became a serious provincial problem the Government of Manitoba has consistently and persistently advocated the Dominion Government's assumption of the burden of relief as perhaps the most important single step towards putting the provincial budgets of Canada upon a sound basis. When in August last Premier Hepburn and Premier Duplessis stated that they would support this move, their statements were welcomed by the Manitoba Government.

"We hope to have their cooperation in helping to bring about this reform, and we wholeheartedly assure them of ours.

Position of Ontario Citizens Under
Present Canadian System of Public Finance

"Now the inescapable facts of the present financial situation in Manitoba and certainly, we think, in other provinces of Canada similarly situated are these.

"When, with their municipalities, faced with the

"impossible burden of financing an irreducible minimum of relief and social services they have already taxed, economized and borrowed in the money markets to the fullest possible extent, two alternatives present themselves; either to discontinue the provincial share of relief and the municipal share of relief and let its recipients starve; or feed them with moneys borrowed from the Federal Government. This is no theory. It is hardly necessary for me to state that millions of dollars of debts are now owing by provinces to the Federal Government which were created in precisely this manner.

"Under Ontario's suggestion, therefore, the Federal government, to which, upon Dr. Taylor's own submissions, the citizens of Ontario as Canadians contribute heavily in taxation, would certainly not be escaping having to pay in fact, regardless of the legal fiction by which the transaction might be clothed, for a large part of what is nominally called the provincial and municipal share of

(Page 10676 follows.)

relief moneys in other provinces. Under Ontario's plan, the Federal government would, of course, escape its own share of the relief burden in Ontario and Quebec, assuming that they, as provinces, would at all times remain sufficiently prosperous to pay the whole costs of their relief.

On the other hand, the federal government would lose and important present source of revenue in income and mining taxes which Ontario has suggested that it abandon. As we have noted above, Ontario did not at the same time suggest that the Dominion could do without the revenue from these taxes. The question then immediately arises as to whether the substitute form of taxation that the Federal government would have to adopt would bear upon the citizens of Ontario as Canadian taxpayers any less heavily than the present federal taxation. The present federal taxation, although levied upon various bases uniform throughout Canada, does on Dr. Taylor's representations result in the citizens of Ontario having to pay an admittedly large share, solely because of the fact that Ontario residents as Canadian citizens have more taxable goods transactions and incomes than the residents of other provinces.

The crux of this matter of relief financing would seem to be this: That with respect to a certain minimum of subsistence, it is not possible in the light of our present conception of the social responsibility of the state, to say or think that we can have a system of 'every province for itself and the devil take the hindmost'. When the hindmost gets into financial difficulties, it does not in fact let its people starve. It first attempts to finance these relief expenditures by excessive taxation and by drastic and excessive econ-

omies; then it borrows the most it can in the money market; and when that is closed, it has to borrow from the federal government. By perpetuating the present system of provincial autonomy which they favour, Ontario's representatives need be under no illusion that they are saving their residents from any liability for those Federal taxes that are levied to meet in other provinces the provincial and municipal share of relief costs which cannot be met by heavy taxation, drastic economies and borrowings from sources other than the federal government. And if they were, Dr. Taylor's figures should speedily disillusion them. Indeed it is for this purpose, and not for the purpose for which Dr. Taylor employed them, that Dr. Taylor's figures are chiefly valuable. Dr. Taylor's figures indicate very clearly that if Ontario political leaders expect to maintain Ontario as a prosperous oasis of sound public finance and relatively low rates of taxation, surrounded by provinces in which there are high rates of taxation, empty treasuries, public and private bankruptcy, and economic discontent, the Ontario political leaders in so doing, are forcing their constituents to pay a stiff price in Dominion taxation alone for the perpetuation of this condition.

But Dr. Taylor's figures, illuminating as they must be for Ontario federal taxpayers set forth, by far the lesser portion of the losses of Ontario's citizens under that system of public finance which Ontario representatives wish to perpetuate.

Each western or maritime province meets its present constitutional responsibility including relief and social services as well as it can out of taxation economics, and borrowing in the money market. To the

extent that these sources fail, the Dominion assists with loans of which in the language of the Ontario Brief, Part II, Page 21:

> " A considerable part, if not all, will probably be written off by the Dominion and will constitute an addition to the Dominion debt to be borne eventually in proportion to the distribution of the Dominion tax burden; that is approximately 45 per cent by Ontario".

For reasons which we have stated, we do not admit that Ontario's share of the Dominion tax burden is as much as 45 per cent. We do admit that it is substantial. We also admit that if these Dominion loans are written off they will constitute an addition to the Dominion debt to be borne eventually by the taxpayers of Canada. Since the Dominion, therefore, now pays the whole of these costs in the western provinces, less what the provinces themselves can raise by taxation, economies or borrowings (which in the present serious depression has proven to be comparatively little) it follows that if the Dominion were to administer relief and social services, the load upon the Dominion and thus upon the residents of the central provinces who pay federal taxes for western Canadian relief would be little, if any greater. Under wholly federal auspices the rate of relief grants would not necessarily be any greater; as compared with the rate of relief in certain provinces and municipalities, it might be less. Since one administrative body would be involved instead of three, the administrative costs should be reduced rather than increased. But the great saving in thus rationalizing the relief administration would be of the indirect losses which are now sustained; and to the extent that they are creditors and investors, by

no group of persons more than by the citizens of Ontario. Dr. Taylor has said in the Ontario Brief that the citizens of Ontario are debtors to the world but creditors to Western Canada. In other words, whereas foreigners have invested large sums in industrial enterprises in Ontario, the people of Ontario have invested large sums in land and other investments in Western Canada. We do not dispute that Dr. Taylor is correct in this view. He has shown the direct cost of the present system to Ontario by the operation of the present system of public finance. But over and above this cost which Dr. Taylor has estimated to arise from Ontario citizens having in their capacity as federal taxpayers, to pay federal taxes arising in the manner outlined abofe, Ontario citizens in other capacities have already sustained and have in prospect huge losses if the present system of public finance is not soon changed.

The cost of the present system of public finance to Ontario citizens cannot be accurately measured without taking these indirect losses into account. They are large enough now; but they are growing and will continue to grow. They will fall directly upon Ontario investors in municipal and provincial bonds; indirectly upon shareholders and debenture holders and policy-holders and depositors in financial and insurance companies having large holdings of western municipal and provincial securities. All of these losses could be avoided if the Dominion were to administer relief and social services. They should be avoided because while we all regret the necessity for providing relief, since it must be provided, it should be paid for -- if we are to have any sound investment banking practice in the country -- on a fair basis by all citizens as

taxpayers, and it should not fall irrationally upon certain groups of investors.

The losses that have occurred to date under these two heads of taxation and investment have been extremely tangible to those who have had to suffer them. Less tangible, but no less real, and probably much greater in extent, is a third class of losses which all Canadian citizens, and notably those of Ontario, are sustaining every day by keeping large numbers of competent workmen idle on relief, making them over a period of time perhaps permanently unemployable. For these competent idle men work could be found by no more complicated an expedient than that of creating a nationally administered and financed unemployment insurance and relief system. Such a combination, coupled with a nation-wide employment service, would relive real estate from its present impossible burden of municipal taxation; by providing a really efficient nation-wide employment service it would inter alia do away with a nonsensical set of provincial relief regulations which ties skilled workmen to a locality when there are employers in other parts of Canada whose plans cannot go forward for the lack of skilled workmen. The losses to individuals, to municipalities, to provinces and to the Dominion, in continuing a system of publid finance and unemployment administration which perpetuates these abuses, may be somewhat less tangible than the other direct losses of which we have been speaking, but they are no less real; are likely quite as heavy; and so far as the loss of working morale is concerned, much more permanent and tragic in their effect.

Thus Dr. Taylor's figures indicate arithmetically that Ontario and also Quebec whose position as a province is much the same, are not under the system of

provincial autonomy which they seek to perpetuate, free of heavy money losses in respect of federal taxation for relief costs in other parts of Canada. The point is, however, that the payment of these federal relief taxation costs by Ontario and Quebec does not relieve them from all the other losses to Ontario investors, to Ontario workmen, to Ontario factory owners, to Ontario financial and insurance companies. Ontario and Quebec have a double set of losses; whereas if the money which their citizens, as taxpayers to the Dominion of Canada under the present system of public finance must inevivably pay for relief in other parts of Canada in the manner in which we have outlined, were raised and spent under one Federal system of relief administration the bankruptcy of municipalities and provinces, the excessive real estate taxation, the continuing unemployment of capital and labour in the building industry, the immobility of labour, the loss of morale among large numbers of Canadian workmen, would largely be avoided. Even after taking into account the presumed increase in Federal taxation which they would pay as a result of the Dominion government taking over the complete administration of unemployment relief, it would be rather extraordinary if when this extensive set of double losses were avoided, that, on balance, both Ontario and Quebed would not be much better off than now.

m It would be quite wrong to assume that the indirect losses that have already accrued under the heads of which we have spoken will not rapidly increase both in number and in severity. It is well known that there is a large number of municipalities in Canada which so far have managed to avoid default only by resorting to the most drastic expedients but which cannot carry on much longer under the present system of relief financing.

When they do default in large numbers, the effect among the financial institutions and citizens of Ontario and Quebec is bound to be serious and far-reaching. It is quite possible, and in many cases probable, that many persons in these provinces , Ontario and Quebec, who, in their capacity of Dominion taxpayers, have already contributed substantially, although indirectly to relief and social service costs in other parts of Canada, will be forced in their capacity of bondholders, company shareholders, insurance policy holders, and investors, to absorb losses from provincial and municipal default which the perpetuation of the present system of public finance in Canada will make inevitable. And these same menaand women will, all the while, participate in their capacity of citizens of Canada in the great and incalculable loss of national income which could have been earned but is not, a loss which results from the ineffectiveness of our methods of dealing with and financing the unemployment relief problem. These losses vary in degree and accrue as double or triple losses on no rational basis whatever. Mr. Smith and Mr. Jones both pay Dominion taxes. Mr. Smith is a thrifty and prudent builder who, after careful inquiry, invests heavily in the bonds of a financially sound municipality in a prosperous industrial area in which he lives and carries on business. Mr. Jones is a gold miner who never saves except to buy speculative mining interests. Events take place outside Canada which communicate a depression to Canada. The costs of meeting this depression are left on the provincial and municipal tax base. The result is that relief costs in the municipality of which Mr. Smith holds bonds become very heavy. The municipal tax rate becomes so high that investment in building

becomes impossible. The municipality finally defaults and Mr. Smith having lost the great part of his business and being unable to realize on his investments which are in default, is unable to meet his own commitments, and becomes, despite his thrift and good judgment, insolvent. Meanwhile, in the midst of, and not unconnected with the depression, the value of gold is altered. Mr. Jones' employment is undisturbed and many of his speculative holdings increase in value. Mr. Smith suffers a triple loss from unemployment. He suffers as a Dominion taxpayer, as a business man, and as an investor. There is no rational basis for this triple loss. And the crux of the matter is that this triple loss which falls in a most irrational way upon an industrious, thrifty and prudent citizen is, in large measure, avoidable.

It is obvious, from Dr. Taylor's figures, that Ontario citizens are today indirectly paying towards the cost of even the provincial and municipal share of relief in other provinces. So far as Ontario citizens in all of the capacities in which they are affected are concerned, a solution to the whole matter of relief administration would seem to be the taking over by the Dominion of the financing and administration of relief. Not until this is done will Ontario citizens get value for the taxes which they pay to the Dominiong government for relief. For this payment they should see that they get value. At present, in view of the past, present and future losses which they face as investors, business men, and employees and citizens, they obviously do not get value.

OBSERVATIONS ON NATIONAL EMPLOYMENT COMMISSION REPORT

In Part VII of Manitoba's Brief we reserved the right

to make further representations when the final report of the National Employment Commission came to hand. Moreover, Mr. Commissioner Angus at the time of our first presentation raised two questions which we did not wish to answer until the final report of this Commission became available. We should like now to deal with these. The references to the first of these points may be found on pp. 430, 431, 436, 437, and 438 of the transcript. In this same connection I might take this opportunity of pointing out that on page 439 the Chairman asked me whether under the British system the unemployables came wholly within the municipal jurisdiction, both as regards provision of relief and as regards administration, and the first draft of the transcript gave my answer as follows: "My understanding is that they come wholly within the national scheme". Then the transcript goes on:

"THE CHAIRMAN: Those who are wholly unemployable?

HON. MR. GARSON: The unemployable, yes. I think that is correct.

THE CHAIRMAN: That would include those who are incapable of work and who would come under the poor loaw system.

HON. MR. GARSON: Yes. "

I think that it is obvious from this context which I have quoted that the word "national" in the transcript should read "municipal" otherwise the exchange between the chairman and myself does not make sense.

But to proceed with the point raised by Mr. Commissioner Angus, now that the final report of the Purvis Commission is at hand the facts can be related to it and to Part VII of the Manitoba brief as follows:

The Commissioners will recal that I classified those in receipt of aid into: (a) employables (b) unemployables in the old sense of physical incapicty and the like, that is, unemployables whose unemployability is not the result of their continuing unemployment and, (c) those to whom I referred as paeudo-unemployables, who were not originally unemployable when they went on the relief lists, but who have become so by reason of their continuing to receive unemployment relief.

It was and is our submission that class A, the employables, and class C, the so-called pseudo-unemployables who, originally employable, became unemployable while receiving unemployment aid and by reason of their continuing unemployment, should become wholly the financial and administrative responsibility of the Dominion Government. Support for this submission may be found in the final majority report of the Purvis Commission itself.

"It should be made clear that under the system outlined the responsibility for the relief of distress other than that arising from unemployment as defined by the Dominion Government Employment Service should lie with the province and its creature, the municipality." (p.29)

"Unemployment aid should be similar to Unemployment Insurance in that only such persons as have been hitherto employed; as have been self-supporting, and/or who are now employable, should be eligible for Aid. These facts should be determined by the Employment Service, suitable provision being made for referees in disputed cases." (p.30)

It will be noted here that although on page 30 the Commission recommends that aid be given to such

persons as have been hitherto employed; as have been self-supporting; and/or who are now employable (which would include Manitoba's classification of pseudo-unemployables) it recommendsoon page 31 the granting of the aid to those in need, capable of and available for employment (which would exclude Manitoba's classification of pseudo-unemployables) Any slight inconsistency here introduced however, is resolved by reference to the clear statement on page 29 that the responsibility for relief of distress other than that arising from unemployment as defined by the Dominion Government Employment Service should lie with the province and its creature, the municipality; and by the further statement to the effect that Dominion aid would not include provision for those whose need is social. This view is further corroborated by the language of the minority report of the Commission, page 50:

> 'The system proposed in the final report has such far-reaching implications that, at the moment they can be seen only as "through a glass darkly." Eventually the change, almost certainly, would result in the Dominion assuming the care of indigency resulting from unemployment, the debts of the provinces on account of relief, and sole responsibility for training and re-training schemes for unemployed youth. The Dominion must be prepared to face the claim, which almost certainly would be made, that the acceptance of the new principle should obtain from the initiation of the distress and should be applicable to all the distress resulting from loss of employment and loss of occupation.'

As regards the above mentioned class (b) unemployables in the old sense whose need is social, and whose unemployability does not arise from unemployment

or economic causes, our submission was and is that they shall be cared for by the province and its creature, the municipality. In this connection, however, for the sake of clarity, it should be emphasized that our submission was and is that the Dominion should pay conditional subsidy to the provinces equal to 50 per cent of the cost of child welfare, public health, hospitalization, and mental institutions, which in effect would mean that the province and the municipalities would administer and pay for public assistance under the heads mentioned, to this class (b) unemployables and would be assisted by the Dominion in the amount of 50 per cent of the cost of so doing.

In referring to the final report of the National Employment Commission, we cannot refrain from expressing our gratification that such an able report has amongst other things, so completely vindicated the Manitoba government's stand upon this subject. Indeed the Manitoba government's views cannot be better summed up than in the words of that Final Report (p. 28) to the effect that "the coordination of a nationally administered system of unemployment insurance and employment office, buttressed by a similarly administered system of unemployment aid, would have decisive advantages over the present system in coping with problems of employment and unemployment"; and that (p.32) "What is envisaged here, therefore, is a unified administration of unemployment insurance, employment service of Canada, and as a corollary, of unemployment aid through which financial and administrative provision could be made for dealing with unemployment, and with certain phases of loss of occupation as they arise".

Moreover, in passing we should like to refer the Royal Commission on Dominion-Provincial Relations to a

recent publication by the Industrial Relations Counselors Inc., of "Planning and Administration of Unemployment Compensation in the United States" by Bryce M. Stewart. In this study the author considers the system of employment service and unemployment compensation. It analyses in detail the structure of the federal-state system and considers the development of certain sample state organizations.

The mere mention of some of the author's major criticisms of the federal-state system in the United States indicates that Canada is not the only country in which difficulties have been experienced with a combined federal-state or federal-provincial system of unemployment administration. For example Mr. Stewart points out that a lack of unified planning and command has resulted in a complicated disjointed organization without sufficient cohesion, flexibility or morale for so great an enterprise which is constantly changing in character.

Again, our own National Employment Commission states (in its Final Report p. 26) that "effective handling of the problem of unemployment .... requires that the Dominion should give more than money; that money will be wasted unless accompanied by administrative control". But Mr. Stewart finds in the United States administration that the necessity of close national supervision over the numerous administrative agencies, since about 95% of their expenditures are from federal sources, makes it difficult to establish that measure of autonomy for state officials which would permit long-term planning, encourage initiative and enhance morale.

Mr. Stewart notes that the combined system results in unduly high overhead costs.

His final conclusion is that no matter how thorough

the improvements in the federal-state system may be, it will still prove defective, and that eventually the adoption of a national system will be unavoidable.

Mr. Stewart's conclusions with regard to the federal-state system in the United States is substantially the same as that of the National Employment Commission in regard to the federal-provincial system here. Mr. Stewart's conclusions reflect the almost universal experience and trend in every country, federal and otherwise, in which the unemployment problem is encountered. In view of the remarkable degree of unanimity amongst informed opinion on this subject the world over, it is singular that there has been so much resistance to the inauguration of a federally administered and financed unemployment insurance, employment service and unemployment aid system in Canada.

In closing my remarks I should like to again draw the Commission's attention to an aspect of Manitoba's treasury problem which is of urgent concern to us at the present moment. Our debt maturities within the next five years are as follows:

DEBENTURES

Series "AA" and "BB"		February 1, 1939	$ 1,500,000.00
"	"DD"	June 1, 1939	645,000.00
"			$ 2,145,000.00
"	"3T	October 1, 1940	$ 3,101,000.00
"	"WW"	June 1, 1941	$ 2,550,000.00
"	"4J"	August 1, 1941	2,122,000.00
"	"XX"	August 15, 1941	395,000.00
"	"CCC"	December 1, 1941	160,000.00
"	"DDD"	December 1, 1941	35,000.00
			$5,242,000.00
"	"3G"	March 1, 1942	$2,250,000.00
"	"3M"	June 15, 1943	$2,500,000.00
"	"3N	August 15, 1943	1,410,000.00

Series "4B"	November 1, 1943	519,500.00
		$4,429,500.00

Total debenture maturities to November 1, 1943 $17,167,500.00

TREASURY BILLS

Owing to Dominion Government "On Demand"	$21,914,096.72
Owing to Royal Bank of Canada May 1,1939	4,878,763.59
	$26,792,860.31

EXCHEQUER BONDS

February	1, 1940	$ 4,270,117.24
May	1, 1940	1,758,222.63
June	1, 1940	350,000.00
June	1, 1940	12,944.00
		$ 6,391,283.87
February	1, 1941	$ 704,000.00
October	1, 1941	20,000.00
		$ 724,000.00

Total Exchequer Bonds $ 7,115,283.87

NOTE: $7,095,283.87 of the above total is held by Chartered Banks as collateral for Treasury Bills totalling $6,785,429.88 issued re Closing of Province of Manitoba Savings Office, which said Treasury Bills mature February 22nd, 1939.

RECAPITULATION OF TOTALS

Debentures	$ 17,167,500.00
Treasury Bills	26,792,860.31
Exchequer Bonds	7,115,283.87
	$ 51,075,644.18

In discussing Federal financing in his last budget speech the Hon. Charles Dunning, Minister of Finance, had this to say:

" As at March 31, 1938, our total bonds, debentures and treasruy bills outstanding amounted to approximately $3,315,000,000. This represents an increase since 1930 of $1,031,000,000 due mainly to the emergency expenditures incident to the depression. The annual interest charge, which represents the burden of this debt as at March 31, last, was $117,063,000 which was less than the corresponding figure at the end of any other year since the close of the war, with the single exception of March 31, 1930. The Interest requirement on the funded debt outstanding on the latter date was three million lower, or $114,577,000. It should be remembered, however, that since 1930 we have invested a substantial sum in additional active loans and investments which as at March 31, 1938, accounted for an offsetting credit to the treasury of $5,470,000 in the form of interest receivable. If this sum be deducted, the net interest burden on the funded debt is less than in any year since the great war, in spite of the increase in the public debt itself of over $1,000,000,000 since 1930."

As Canadians we rejoice in this creditable achievement.

The conditions which made it possible continue to exist.

The position of the Province of Manitoba, however, does not enable it to take advantage of these conditions in order to refund its maturities. If a reason is sought for this fact it will not be found in the words or deeds of the government of Manitoba or in any

circumstances over which this Government has control. The Government of Manitoba has done everything in its power to be in a position to service its debt and to refund it as it matures. The Manitoba Treasury is particularly anxious to emulate the achievement of the Federal Treasury in reducing interest requirements by taking advantage of the present level of interest rates. Not only is Manitoba in a position in which it is unable to refund its maturities, but that position has political implications of the most serious nature. If reference is made to Table 1 of Part VII of the Manitoba Brief it will be seen that public debt charges absorbed no less than 47.24% of total current account expenditures in the year ending April 30th., 1936. The corresponding percentage for the year 1937 is 43.25%. Other percentages for the year 1937 are as follows:

General Expenses of Government	8.94%
Education	11.59%
Public Welfare	18.50%
Public Works (Including maintenance of all buildings and roads	8.65%
Public Domain	4.77%
Write Offs	4.30%

Other comparisons which might be made for the year 1937 are as follows: The percentage of net interest charges to net revenue 29.32%. The percentage of net interest charges to gross expenditure 25.74%. The percentage of gross interest and sundry Bank charges to total revenue 39.10%. The percentage of gross interest and sundry Bank charges to total expenditures 39.83%.

It is difficult, if not impossible, in the face of present public opinion for any government to continue to

justify the payment of these large percentages of provincial revenue for interest and debt charges. This is particularly so when a large part of the debt upon which they are paid is a dead weight incurred for the payment of a burden ~~r~~ relief -- which, in our judgment at least, should never have been imposed upon the provincial tax base. Yet there are only two ways in which Manitoba can avoid continuing to pay these interest and debt charges, namely, by a general refunding or by default.

If we had not tried so hard, as well in the national interest, as our own, to avoid default we could perhaps submit to the inevitable with better grace. But in view of the efforts which the people of Manitoba have put forth so unsparingly to be in a position to honour their obligations we submit that it would be nothing less than a tragedy if the Manitoba Treasury is now forced to default by an attitude of "every treasury for itself and the devil take the hindmost".

It is for this reason in closing our case before this Commission that we emphasize the importance and urgency of prompt action being taken to accomplish a general refunding of Manitoba's public debt under the plan outlined in Part IX of our brief. This plan if applied to our direct and indirect debt would effect a net saving of debt charges to the taxpayers of Manitoba of $1,888,000. It would not cost the Dominion Government a cent because the Dominion would retain the money which it now pays to the province as unconditional subsidy and with it pay the interest on the province's debt assumed by the Dominion Government. As for the holders of the bonds so refunded, the refunding would result in their getting new bonds worht at least as much as those which they now hold. The Manitoba

taxpayer would gain greatly by the putting into effect of this plan. None of the other parties to the transaction would lose. The resultant position of the Manitoba Treasury and the Dominion Treasury and the bond holder and of the taxpayer would be much sounder than it is now. To do nothing about this provincial debt situation is the most unsound policy that Canada can follow at this time."

I thank you.

MR. ST. LAURENT: You file this supplementary brief as Exhibit 427?

HON. MR. GARSON: Yes.

EXHIBIT 427: Supplementary brief of the Province of Manitoba

THE CHAIRMAN: Have you any questions, Mr. St. Laurent?

BY MR. ST. LAURENT:

Q. No. There was just one question in connection with the statement on page 31 where it is said that there are at the present time skilled workmen in certain localities unemployed, whilst there would be employment in other localities. I was wondering if Mr. Garson had any concrete information about that? A. Yes.

Q. Or is this from the Unemployment Report? A. No, it is not from the Unemployment Report, but from a gentleman who was connected with the Unemployment Report. I do not know whether I should quote him. He is a business man himself, and in a position to know. He told me unofficially that they had found that condition prevalent in eastern Canada. I know of no case in western Canada to my own personal knowledge.

Q. Have you information that would lead you to believe that it existed to any substantial extent? A. Yes. As a matter of fact I was informed in some industries there was quite an important shortage of skilled workmen.

Q. And that that situation existed because of the local administration of relief; that they would have to forego moving from one section to another because they would lose their title to relief? A. Based upon residence, and there was a disinclination on that account for them to move; because they may move to Montreal or Hamilton to get employment, and get employment for four months or whatever period of time it may be, and then by some interpretation of the regulations they may find themselves for relief purposes without a country. They would have no residence to go back to in which they could get relief. However, it may be that that was not the case through a strict interpretation of the regulations, but that was their interpretation, at any rate.

Q. That is something that would be eliminated by a national system of administration of unemployment relief? A. Quite, because I think anyone who has written on the subject indicates that one of the disadvantages of any state system or provincial system is the immobility of labour, and one of the advantages of a national or federal system is the fact they can qualify in any one of the employment service bureaus, and can move quite freely from one place to another.

THE CHAIRMAN: Do you intend to close the case for the province of Manitoba?

HON. MR. BRACKEN: Yes.

BY COMMISSIONER DAFOE:

Q. Mr. Garson, your plan of unemployment relief recognizes the obligation of the provinces for indigents? A. Yes.

Q. Then, there would be two organizations? A. Yes.

Q. The municipal organization would look after the indigents? A. Yes.

Q. There would be a good deal of trouble about border line cases. How would they be sorted out? A. Well, that was

in the part of the brief that I passed over. As a matter of fact, I think I have made it clear, whether one agrees with the views I have expressed or not, that our contention is that the provinces should take care of all cases of indigents, and that all cases of unemployable persons where unemployability arises from their continued unemployment. Those whose condition can be attributed to economic causes of unemployment should be taken care of by the Dominion. That at the start would be quite a heavy load, but if you had a national unemployment service that would tend to diminish because that group would gradually go off your definition in one way or another.

Q. Do you accept the definition of the National Employment Commission as to what constitutes employability, people who would be recognized as fit for unemployment relief. There are certain tests which they apply? A. Yes, there are tests in effect at the present time. I have some of them here somewhere. But I believe that we would be quite prepared to accept them because the way they read is that it is in the judgment of the relief administering officer. It does not mean very much because your relief officers are merely provincial and municipal officers scattered throughout Canada; and I cannot understand how you would have any uniform standard set by leaving it in that way. When theb argument is brought forward that there would be administrative difficulties in a federal system I cannot imagine how they would be anything like as great as the ones that exist now and they are being surmounted every day.

Q. You are aware of the arguments that are made against it, and have been made to us, that it would mean an enourmous staff of federal officials, and that they would not get the cooperation of the local organizations, which is now given, and so forth. You do not think there is much validity in these arguments? A. None whatever, because that has

not been the experience in Great Britain. As a matter of fact, in part 7 of our original brief we cite the number that were required on the staff to take care of the unemployment relief administration in England, under one central system, and the corresponding staff required for the federal administration in the United States situation, and one was very much greater than the other. I have forgotten the figures. In the very last book on the subject published about a month ago by Bryce M. Stewart on the present federal-state system of unemployment relief, and employment services administration in the United States under these two new acts, Social Security act and the Wagner-Peyser act, the last sentence reads as follows:

"It can be predicted that complete reconstruction on a national basis will come, either by the evolutionary process or by drastic revision in a time of stress."

The tenor of the whole book is to criticize the inherent weaknesses of the present system and to bring forth the advantages of the federal system.

Q. We had Mr. Stewart with us for a whole day? A. I did not know that.

Q. Then, on the question of refunding. The Manitoba proposition is that the unconditional subsidy should be applied to refunding? A. Right.

Q. It should be capitalized? A. Yes.

Q. At a certain figure and applied to a reduction of the debt? It involved, as I recall it, a certain amount of compulsion. Is that still the attitude of the province, or would you wait until your maturity fell in. You are going to have $51 million fall due in the course of a very few years. A. I think that in the interests of the bond-holders themselves it is the conscionable attitude for us to take.

Q. To wait for maturity? A. No; a larger operation is forced upon us by circumstances.

Q. You do not think there would be any resulting shock to not only the credit of the province but to the credit of the dominion? A. No, I do not think so. I have discussed the matter with bondholders' representatives themselves. They were more or less informal discussions and I would not feel at liberty to quote names or anything of that sort; but the impression I have received is that if the matter were a bilateral arrangement and from the beginning appropriate cognisance taken of the interests of the bondholders, and their cooperation sought, and if we came to a position where we really could improve their situation by handing them what would be, in fact, a federal bond in return for approvindial bond that they would be --- perhaps, I will not say reluctant, but reasonably --- glad to make that exchange. I believe one could make a test of that attitude by considering what he himself would think if he held any of the western provincial bonds, and were offered a dominion 3¼ bond in exchange for it. What would one think?

Q. In order to have that pressure applied you could not have the alternative proposition of paying them off at maturity, because the higher interest in the intervening period would be a factor? A. Yes; that is one of the main difficulties.

Q. They would not want to refund then? A. No; and our maturities are spread over a long enough period of time. For example, these amounts that I have named here are spread over a five year period. We do not know to day whether the interest rate three years hence will be what it is now; and the real fact of the matter is that unless a greater change in the dominion fiscal system than we have any reasonable hope of getting takes place the rate of interest on the Manitoba debt will have to be reduced substantially lower than

it is now if we are going to carry on successfully.

Q. In that case the unconditional subsidy would disappear and the debt would be reduced by the amount of the capitalization? A. Yes; and we would save $1 million eight hundred thousand odd in the process. It is our submission that the other persons would be better off.

Q. Would you consider the province then free to go and run up a large amount of provincial debt at a higher rate of interest? A. I can only speak for myself, because whatever I say would not bind my successor; but for my own part I would think that the least that a provincial treasurer could do or the government could do, if an operation like that had been carried into effect, if he was honourable at all, would be to be very careful about incurring new debts. That attitude might not be taken by my successor.

Q. The most excellent governments some day find the hat is handed out. You do not envisage in that connection a loan council to control future provincial borrowings? A. I think the commission will understand that in the position in which any representatives find themselves they would not wish to take the initiative in envisaging a loan council. I suppose if that were forced upon us as a part of the price that we may have to pay for securing participation, shall we say, of the dominion in refunding, well we would have to consider it on its merits.

Q. We have had our attention drawn in the discussion in the last two or three days to the impact of provincial borrowing upon such a question as the exchange rate of our dollar? A. Yes.

Q. One of the reasons that our dollar did not fall -- if it had fallen it would have given relief to the primary producers --, was the provinces were in the outside market collectively for over $100 million in a single year, in that case duplicating similar borrowings by the dominion.

So, now that we have not got any fixed international rate for the dollar, it fluctuates. Unlimited provincial borrowing in the markets of the world may very seriously impinge upon dominion monetary policy. A. Quite. I think that is a perfectly logical conclusion from the facts.

Q. You do think there are considerations there that might be explored? A. I am only expressing my own personal views now. I think, quite apart from any question of a loan council in the sense that the term has been applied in the discussion before this commission that there could quite properly be a much closer collaboration between the Dominion and provincial treasuries in the matter of issuance of debentures, both as to timing and amount.

BY COMMISSIONER ANGUS:

Q. The type of currency control you speak of would almost require some unified control of borrowing abroad?

A. I think it would, yes. There is a fairly good indication of that in the fact that in 1930 all the economists were agreed -- once it happened that they agreed -- that one of the factors which kept the Canadian dollar to the level at which it remained then was the large amount of foreign borrowings on the part of the provinces, the dominion, and private companies. I would imagine a monetary authority would have quite a time on his hands if he could not have any greater amount of control over these factors than is had at the present time.

BY COMMISSIONER DAFOE:

Q. Your view is that the provinces prefer this unconditional subsidy to be capitalized for the paying off of the debt. It would be free to pursue that policy with other provinces, or do you think that the Dominion should make it a condition with all the provinces?

A. Pay of the debt?

Q. To pay off the debt by capitalizing their subsidy. Would that be conditional with the provinces? A. Yes.

Q. If they did not want to come in there would be no pressure? A. I imagine some of them would not want to come in, because there is a slight element of departure from the strict letter of the contract in an arrangment of that sort.

THE CHAIRMAN: To put it mildly.

HON. MR. GARSON: I was putting it mildly.

COMMISSIONER DAFOE: These are all the questions I have to ask.

HON. MR. BRACKEN: Mr. Chairman, we have nothing to add to the submissions we have been able to make at this time. Since, however, you have raised one question may I just supplement what the Provincial Treasurer has said by saying that the remarks he made in the last few minutes are his own personal views. The government of Manitoba hqs come to no decision with respect to the loan council. As a general principle under existing conditions we oppose that principle. If, however, as a part of a general program designed to bring about a major measure of greater economic justice to that area it is advocated, we would be prepared to look at it. In justice, we would be prepared to look at any other proposal aimed to bring about a greater measure of equity as between the different provinces of Canada. That is all I have to say.

Before I leave, Mr. Chairman, I should like the opportunity to say one word. When this commission was appointed some fifteen months ago we were impressed by the representative character of the personnel that was announced at that time.

Wehn you met with us a year ago in Winnipeg we were very favourably impressed with the manner in whcih you were

approaching your work, and we have jot been disappointed since.

We have been very pleased with the way you have approached the problems submitted to you all the way across Canada, and particularly with your plan to have your technical staff inquire into this situation free from the prejudice of local influences. I want to say,-- because that is the way we feel -- since we came here this time we have been more than ever impressed with your desire to get at real grips with what I think is one of the problems that up till now has been tending to keep the different parts of Canada apart, tending to promote disunity rather than unity in Canada. I think it is clear that we should say these things. I hope that Manitoba's contribution will be found useful to you in arriving at a solution that we hope will further the interests of Canada as a nation. Thank you very much.

CLOSING REMARKS OF CHAIRMAN:

THE CHAIRMAN: Mr. Premier, I must thank you sincerely for your very kind expressions. May I add also that Manitoba deserves much praise for the way in which it has made its presentation. This additional one must certainly have involved a tremendous amount of work and probably a great deal of expense. Ittwill be a great help to us and we will sertainly look into it most carefully. We opened our public sittings with you, and we are closing them with you.

Now, gentlemen, I declare our public sittings closed. We have the right to re-open them should conditions arise which would impel us to do so. Gentlemen, I thank you.

(The Commission adjourned sine die)

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